

## NEWS SUMMARY

### GENERAL

#### France to seek German accord

France will be trying to win support from West Germany for plans to boost growth and stabilise exchange rates during their two-day summit in Paris today.

The French Government is particularly keen to see recovery in its most important trading partner to reduce the still mounting trade deficit with Germany.

President Francois Mitterrand and Chancellor Helmut Kohl are expected to have several hours of discussions. But according to the President's call for a Bretton Woods-style system of exchange rates is unlikely, Page 18.

#### Arms talks hopes

West Germany's Defence Minister Manfred Wörner said the Soviet Union might give way in nuclear arms talks if the West stood firm, avoiding the need to deploy cruise and Pershing 2 missiles.

#### Pakistani mission

Pakistan's Foreign Minister Sahabzada Yaqub Khan started a six-nation tour seeking support for a settlement to the Afghanistan problem.

#### Prisoners swapped

Eight West Germans charged in Libya with spying for the CIA were sent home in return for two Libyans arrested over allegations of torturing fellow countrymen, Page 2.

#### Summit in Paris

President Mitterrand of France and Chancellor Kohl of West Germany met in Paris today to renew their countries' special relationship after monetary and economic differences, Page 18.

#### China jails editor

La Cheng-Hsun, editor-in-chief of Hong Kong's New Evening Post, was jailed for 10 years by the Chinese Government for spying for the U.S., Page 2.

#### Gulf oil slick plea

The Gulf states will try today to persuade warring Iran and Iraq to let workers cap damaged Iranian oil wells which are pouring crude into the Gulf at a rate of thousands of barrels a day, Page 4.

#### North Sea rescue

Thirty-seven people were evacuated from a North Sea platform 40km off the Dutch coast after it began to leak gas.

#### Rodolfo Gucci dies

Rodolfo Gucci, one of the four brothers who made their name famous for elegant fashions, died in Milan. He was 71.

#### Chile clampdown

Chilean military police arrested over 2,000 people in Santiago following the funeral of a taxi-driver killed during anti-government demonstrations, Page 2.

#### Grand Prix winner

Keke Rosberg of Finland, driving a Williams, won the Monaco Grand Prix. Brazilian Nelson Piquet was second.

#### Briefly...

Sand storms hit Jeddah, Saudi Arabia, cutting visibility to 500m and pushing the temperature up to 42C.

Karachi dockers ended a 45-day strike after their wages were increased 10 per cent.

Malawi, a one-party state, will hold a general election on June 9.

Earthquakes shook the Ionian Islands off western Greece. No one was hurt.

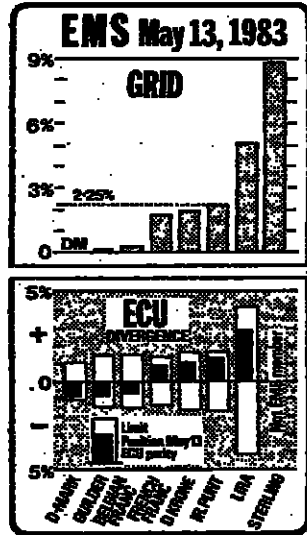
### BUSINESS

#### AT & T deal with U.S. chip makers

AT & T, the U.S. telecommunications giant, has persuaded leading U.S. chip makers Motorola, National Semiconductor and Intel to make their advanced microprocessor devices conform to an AT & T design, Page 20.

ERT, the Spanish chemicals group, is near to concluding talks on its 51m debt, incurred partly because of the peseta's decline against the dollar, Page 18.

WEST GERMANY is confident of selling nuclear reactors to Egypt but will not finance their purchase, research minister Heinz Riesenhuber said, Page 3.



EUROPEAN currencies traded quietly last week, partly because of Thursday's Ascension Day holiday. There was little change in interest rates. Paris domestic and Eurocurrency rates fell slightly as pressure eased on the French franc, despite political unrest. Attention focused on the Japanese yen, which was firmer against all currencies, and on the dollar, which moved nervously on speculation about a cut in the Federal Reserve discount rate before the Williamsburg summit.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the rates from which no currency (except the DM) may move more than 2 1/2 per cent. The lower chart gives each currency's divergence from its 'central rate' against the European Currency Unit (ECU), itself a basket of European currencies.

POLAND'S industrial production fell by 7.2 per cent last month, compared with March, but was still 10 per cent up on the first four months against the same period of 1982, Page 2.

BRAZIL'S car production will be ahead of the UK's by 1985, according to DRI Europe, Page 3.

SYRIA is awarding contracts to Eastern bloc countries which Western companies thought they would win before Israel's invasion of Lebanon, Page 3.

ISRAEL'S trade deficit increased by 35 per cent in the first four months of the year to a record \$1,060m.

BRITAIN'S chemicals industries face the prospect of permanent decline over the next decade, according to the Chemicals Economic Development Committee, Page 18.

U.S. COMMERCE Secretary Malcolm Baldrige arrives in Tokyo today to start a 10-day Asian trip to try to smooth trade relations between the U.S. and China and Japan, Page 3.

LINDE, the West German engineering company, emerged front runner in the bidding for French forklift-truck maker Fenwick Manufacturing, Page 20.

FITCH LOVELL, the UK food group, has asked shareholders to give its board freedom to choose between rival offers for its Key Markets supermarket chain, Page 18.

## Banks seek way to keep Brazil debt rescue alive

BY ALAN FRIEDMAN IN LONDON AND WILLIAM HALL IN NEW YORK

Sr Carlos Langoni, the Brazilian central bank governor, and the country's key creditor banks are urgently considering new ways of keeping the country's debt rescue arrangements as planned.

Sr Langoni, who arrived in New York on Friday, is expected formally to ask the International Monetary Fund today to relax the terms on which it is lending \$4.9bn to Brazil. This move is likely because Brazil is failing to meet several important economic targets agreed with the IMF earlier this year.

Meanwhile, talks have been held in New York at the weekend as concerns have mounted that Brazil's multi-billion dollar rescue package - including new bank loans, IMF money and trade credits - might now be in danger of coming apart.

The most immediate concern centres on the provision of interbank credits - the short-term deposits which banks place with each other and which are a vital source of liquidity for Brazil in the present situation.

Major U.S. banks are increasingly convinced that official efforts to persuade banks to restore their Brazilian interbank lines from just

under \$5bn to at least \$7.5bn are now unlikely to succeed. Some U.S. regional and European banks are refusing to restore their interbank lines to previous levels. Some reports suggest that a significant number of banks may now be reluctant to increase their short-term exposure.

One Detroit bank, for example, said on Friday that it had completely withdrawn a \$70m line which it had once had to Banco do Brasil. It said, it said, no intention of restoring it although it was prepared to consider trade-related credits to cover exports to, and imports from, Brazil.

Some bankers are arguing - that the basic structure of the complex rescue package is sound but that, partly because of the problems with short-term liquidity, it may now be necessary to alter parts of it. Others believe that Brazil is now going to have to find alternative sources of

short-term finance because of the problems with the interbank lines.

Sr Langoni told Associated Press his objective was "simply to accelerate receipt of already committed funds."

He conceded that Brazil was suffering from what he called a "liquidity squeeze" and was about \$550m behind in its foreign payments. But he said the average delay was only 12 days, and that the situation was "a passing phase due to seasonal export problems." He predicted that by September Brazil would be up to date on its foreign payments.

Sr Langoni said his main effort while in the U.S. would be to prod private banks to accelerate the disbursement of trade-related lines of credit which had already been committed.

Continued on Page 18  
Details of Brazil's debt position, Page 18; Brazilian car production, Page 3

## UK may get new EEC rebate before June poll

BY JOHN WYLES IN GYMNHICH, WEST GERMANY

THE BRITISH Government's prospects of securing a vital reduction in its payments to the 1983 EEC budget before next month's general election appeared to strengthen after informal weekend talks here between Community foreign ministers.

Meeting in the rural calm of a Rhineland Schloss, they laid the ground for detailed negotiations in Brussels on May 24-25 on the size of the rebate to be paid back to the UK on its net contributions to Brussels this year.

Mr Francis Pym, the British Foreign Secretary, said the weekend had been a "constructive and hopeful step towards a solution" of the rebate issue. He observed that, far from making his negotiating task more difficult, the imminent election was making it "even considerably easier." Everything now depended on "how far our partners are prepared to go on May 24-25."

But the task facing Mr Pym, remains a tough one. It became clear at the weekend that several governments wanted the UK to soften its opposition to proposals for raising the existing ceiling on the Community's budget revenues now that they are close to exhaustion.

Mr Pym was totally unready to

do so at the weekend. His position was fortified by West Germany's hostility to the idea and by an unexpected reluctance on the part of Belgium and the Netherlands to give it immediate support.

His confidence also seemed to be strengthened by the extent to which British and West German demands for a quick clampdown on the surging costs of the Common Agricultural Policy was also gaining ground in other member states.

As a result, Herr Hans Werner Lautenschlager, a senior West German Foreign Ministry official, together with a representative of the European Commission, will tour national capitals in the next week to try to identify a package deal for adoption on May 24-25.

That would seek to deliver an agreement on the UK's rebate together with guidelines for negotiation in the coming months on the CAP's costs crisis and future financing of the Community. These guidelines would be submitted for endorsement by the Community heads of government summit in Stuttgart on June 6-7.

The fact that the majority of EEC governments are Centre-Right coalitions is emerging as potentially important in the negotiations on the

UK's 1983 budget rebate. Most would prefer a Conservative victory on June 9 to the arrival of a Labour government dedicated to withdrawal from the EEC.

Although they may make Mrs Margaret Thatcher, the British Prime Minister, wait until the Stuttgart summit for a final deal on the rebate, they are unlikely to rob her of success if the issue appears to weaken her campaign for re-election.

Herr Hans Dietrich Genscher, president of the EEC Council of Ministers and West German Foreign Minister, took a more cautious view. Looking ahead to the Brussels negotiations and the Stuttgart summit, he said he was "encouraged but not yet hopeful."

But Mr Claude Cheysson, the French Foreign Minister, issued an important warning about the negotiations resuming in Brussels today on new EEC farm prices. Underlining the domestic and political importance to France of an agreement this week, he warned that "failure will create such tensions" that nothing would be possible on other issues.

Farm price talks, Page 2

## Japanese robot manufacturer in European development pact

BY NICK GARNETT

DAINICHI KIKO, Japan's third largest industrial robot manufacturer in terms of sales, has signed a tripartite agreement on joint technical development and marketing with the French electrical and engineering group Thomson-Brandt and the British company Dainichi-Sykes.

The agreement will be formally announced today at the Automan exhibition in London. It might eventually influence the siting of a robotic manufacturing plant which Dainichi-Sykes - a wholly British owned subsidiary of the Yorkshire-based Sykes Group - intends building in Europe.

The agreement involves Thomson-Brandt - Thomson-Brandt's electrical engineering division - co-operating with the Japanese and British companies in developing robotics and flexible manufacturing

systems, and designing components such as motors and control units. Thomson-Brandt will also act as a distributor of the Dainichi range of 18 robots in France, Spain, Italy and Portugal.

This distribution and technical development link already exists between Dainichi Kiko and the Preston-based Dainichi-Sykes, which imports Dainichi robots and then designs, builds and sells automated systems to go with them. It also has the European distribution rights, with the power to appoint distributors.

Mr John Tomlinson and Mr David Walker, joint managing directors of Dainichi-Sykes, were appointed to the Japanese company's board earlier this year in an unusual example of Anglo-Japanese cooperation.

The sale of Dainichi robots in Europe will be further advanced by

the appointment of Stiefelmayer as distributor for Germany, Austria and Switzerland. The West German company manufactures advanced measuring and marketing machines and is a significant supplier to vehicle and aerospace manufacturers.

Dainichi-Sykes, which sold more than £1m worth of equipment last year compared with Dainichi Kiko's estimated sales of £16.6m, was involved in discussions with the Department of Industry this week about setting up a robotic manufacturing base in Europe.

Mr Tomlinson said yesterday he would like to see the plant built in the UK but the company would be influenced by the size of any financial assistance offered elsewhere in Europe.

Technology Report, Page 11; Japanese statistical trends, Page 5

## Jobs are greatest worry, says poll

By Malcolm Rutherford in London

UNEMPLOYMENT has emerged as the greatest single cause for concern among the industrial democracies, according to the results of an international opinion poll published today.

Fears about inflation appear to have abated somewhat in the last few months, as have worries about the energy crisis. There is still concern about "the threat of war," though rather less than when a broadly comparable poll was conducted in September last year.

A striking subsidiary finding is that there seems to have been a decline of confidence among Americans in the quality of political leadership in the U.S.

Poor political leadership was listed by 36 per cent of Americans among their major concerns - 10 points up on last September. In Britain, France and Germany, confidence in the political leadership appears to have grown.

In West Germany 82 per cent of respondents gave unemployment as one of their main anxieties - up seven points from before. In the U.S. the figure was only 52 per cent, but it was still an increase of 10 percentage points.

The exception was Japan, where only 23 per cent of respondents listed unemployment as one of their greatest concerns. But Japan was not polled last time, so there is no proper basis for comparison, and the Japanese responses in general were characterised by a high degree of "not sure."

The country most concerned about inflation is France, where 49 per cent of those asked said that it was among their major worries. Next came Italy with 43 per cent. The figures for the U.S., Britain and Germany were 35, 22 and 21 per cent respectively. In Japan it was 33 per cent.

Concern about "excessive government spending" is highest in Germany and the U.S. - 34 and 33 per cent respectively - though in Germany the concern is diminishing and in America it is rising. In the UK it was mentioned by only 10 per cent.

The poll, called Industrial Democracies and World Economic Tensions, was sponsored by the Atlantic Institute for International Affairs in Paris and conducted by the Louis Harris Organisation last month.

Details, Page 17

## Syria mounts opposition to Gemayel deal

BY PATRICK COCKBURN IN DAMASCUS, NORA BOUSTANY IN BEIRUT AND STEWART DALEY IN JERUSALEM

SYRIA is moving in strong opposition to the government of President Amin Gemayel of Lebanon after his decision to sign an agreement with Israel under which the Israelis will withdraw their troops from Lebanon if Syria agrees to do the same.

Damascus is now encouraging its allies on both the Right and the Left within Lebanon, who met on Saturday, to come out against the agreement and against President Gemayel.

Mr Yassir Arafat, the leader of the Palestine Liberation Organisation (PLO), said in Damascus yesterday that war was now the only way to change the balance of power in the Middle East, according to the Palestinian news agency Wafa.

In one of the toughest statements he has made for months, Mr Arafat appeared to mark his recent shift towards hard-line Syria and away from moderate Jordan, with whom his talks on U.S. Middle East peace efforts broke down last month.

The Syrian Government said at the weekend that the agreement threatened its security and would move Lebanon from being an ally of the Arabs to an ally of Israel. The state-controlled Syrian Press yesterday warned of the danger of civil war resuming in Lebanon.

The Lebanese cabinet unanimously approved the troop withdrawal accord with Israel on Saturday. The Lebanese parliament is to ratify the agreement today, so that it will be ready for signature on Tuesday.

Pro-Syrian Lebanese political figures met in the northern stronghold of Zghorta to form an opposition "national front." They included Mr Suleiman Franjeh, a former Lebanese president and an old-time Syrian ally, Mr Rashid Karami, former prime minister and leader of the Sunni Muslims in Tripoli, Mr Walid Jumblatt, a Druze and Progressive Socialist Party leader, and Mr George Hawi, Lebanese Communist Party leader.

Mr Karami, who stopped short of proclaiming a "national front," said he nevertheless totally rejected the proposed agreement with Israel.

Mr Jumblatt, who has been staying in Damascus over the past week, was flown back to the Syrian capital yesterday with Mr Hawi to brief Syrian leaders on the outcome of the talks in Zghorta.

In Netanyahu, Israel, yesterday, Lebanese and U.S. officials were still putting the finishing touches to the draft agreement for troop withdrawals from the Lebanon. The



Yassir Arafat: 'war the only way'

agreement worked out by Mr George Shultz, the U.S. Secretary of State, in two weeks of recent shuttle diplomacy, has been passed at respective cabinet levels, but problems of the translation into a French text remain.

Israeli officials were confident that the agreement would be signed, probably on Tuesday, despite Syria's insistence that it would not remove its estimated 40,000 troops in Lebanon.

Israel has said it would not withdraw its own 25,000-strong occupying force unilaterally. This means that although the agreement will be completed and signed, it may not be implemented until the Syrians agree to withdraw and the estimated 8,000 outstanding PLO forces in the north of Lebanon also agree to leave. Israeli officials yesterday were confident that the Syrians would ultimately withdraw.

They gave the following reasons. First, Israeli troops are deployed just 25 kilometres from the Syrian capital, and pose a threat to the Damascus-Aleppo road, which they describe as Syria's lifeline. Implicit in this deployment is the Israeli belief that if the Syrians are not prepared to leave voluntarily, then the Israelis have the capability to force them out.

Secondly, the Israelis say they accept the word of President Gemayel, that Lebanon can persuade the Syrians to leave. They say that President Hafez Assad sent his troops into Lebanon in 1976 at the specific request of the Beirut Government of the time.

Agricultural disorder in the Bekaa Valley, Page 2

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LOW OVERHEADS  
GOOD COMMUNICATIONS

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Get the facts from Douglas Smith, Industrial Adviser, Civic Offices, Swindon. Tel: (0793) 26161 or Telex: 444449.

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## OVERSEAS NEWS

Paul Taylor in Hot Springs, Virginia reports on the top industrialists' conference

## Boardroom moguls optimistic on U.S. economy

NOBODY REALLY expected a reply to the rather impertinent question: "Who wants Volcker for another term? Raise your hands." But the reply came. One by one the arms went up. Mr. Clifton Garvin, chairman of the Business Council and of Exxon Corporation led the bizarre informal vote among the 14 members of the influential U.S. industrial group's executive committee present.

Ten other executive committee members followed. There were no votes against the Fed chairman's reappointment when his current term of office ends in July, but three businessmen abstained.

Mr. Walter Wriston, chairman of Citicorp and himself a possible candidate for the job, explained he had reservations about Volcker's record and, in particular about past credit controls and Mr. Volcker's attitude towards Wriston's pet subject, bank deregulation.

The other abstentions came from Mr. James Evans, chairman of Union Pacific, and Mr. John Debutts, former chairman of American Telephone and Telegraph. Both said later that they favoured a Volcker reappointment, but Mr. Debutts said he felt the vote was inappropriate. Keynote speakers (Mr. Volcker himself declined an invite) at the Business Council's bi-annual conference at the Homestead Hotel resort were also coy. Mr. Donald Regan, the Treasury Secretary, would say only that the vote would make no difference to White House deliberations.

The informal vote, which immediately became a major bar-room, tennis court and golf course topic of conversation, did, however, show that the top leaders of corporate America, together with Wall Street, think the Fed chairman should be given a second term.

While the vote itself was still something of a side issue, it did highlight the basic concerns of the two-day meeting attended by 116 chairmen and chief executives from America's largest corporations.

The businessmen's message was simple. The economy is starting to pick up, but a failure to match the Fed's achievements on the monetary front with federal spending cuts could have dire consequences for inflation, interest rates and the recovery itself.

This mood, reflected in the Council's economic forecast and in corridor conversations, is considerably more optimistic than it was just six months ago. But business leaders point out that the recovery is both "patchy" and "fragile" and could easily be blown off course by a failure to reduce the yawning budget deficits—particularly in later years.

What most worries the U.S. business community is that while the recovery is sustainable this year, despite the \$200bn (£129bn) deficit, because of west private sector borrowing demand, Congress and the Administration may be unwilling, or unable, to reduce the deficit in subsequent years.

The debate was given added emphasis and urgency by the Senate budget impasse which

PRESIDENT Ronald Reagan doggedly reaffirmed his opposition to new tax increases at the weekend, repeating his well worn position, that they would do nothing to reduce budget deficits, Reginald Dale, U.S. Editor writes from Washington.

Mr. Reagan held firm despite warning from leading Republican senators, that he must compromise on taxes if he wants to keep playing a role in 92 congressional budget process.

Following the failure of Mr. Reagan's hitherto loyal Republican supporters to push through a budget in the Senate last week, the Senate

blossomed on day one of the conference and by the comments of Mr. Regan, Mr. Martin Feldstein, chairman of President Reagan's economic council, and by Mr. David Stockman, the budget director.

Mr. Stockman talked of "Gridlock politics." Mr. Feldstein of "not trivial risks," and Mr. Regan of the possibility of "very strict monetary policy" to prevent a return of "wild inflation" if the deficits are not brought under control.

Only Mr. George Shultz, Secretary of State, and Mr. Caspar Weinberger, the U.S. Defence Secretary, seemed able to transcend the issue. Mr. Weinberger, a regular at Hot Springs, delivered a stirring but the same speech he gave six months ago to an already convinced audience. He said deficits mattered but not so much that the defence budget should be

Republicans now reluctantly accept that they will have to negotiate with the Democrats in the days ahead. Mr. Congress is to pass a budget resolution.

Mr. David Stockman, Mr. Reagan's budget director, warned that the political "gridlock" in Congress might mean that no budget resolution could be passed for fiscal year of 1984 and urged Mr. Reagan to step in.

Mr. Martin Feldstein, chairman of the Council of Economic Advisors, warning that Congressional failure to reduce future budget deficit, would pose a risk that the economic recovery might "peel out in a year or two."

timed any further than it already has been.

There seemed to be little dissent from that view. Mr. Weinberger said his reaction had been "quite heartwarming."

One of the problems facing the business leaders is that although they are concerned about the deficits, they appear to have few, if any answers. They would, however, prefer to see non-defence spending cut rather than any increase in taxation.

Another problem is that the business leaders' industrial experience remains fragmented.

Although the immediate profits picture looks pretty rosy, the council is predicting a 20 per cent surge in corporate profits this year and a 22 per cent jump during 1984—due mainly to reduced costs and wage increases and higher productivity. The business leaders,

however, painted a particularly "spotty" picture of the recovery so far.

On the retail side, Mr. Donald Seibert, chairman of J. C. Penney, said: "There is a little better tone to things." Mr. James Ferguson, chairman of General Foods, said: "Our volumes are running ahead of expectations" but added that the return was only "modest."

Mr. Ferguson's comments prompted one of the few jokes of the conference. Mr. John Opel, chairman of International Business Machines, revelling the meeting of senior corporate economists who put together the Council's economic report

had noted that demand for poultry products was very good while demand for bacon was terrible. Mr. Opel said: "Someone replied 'it's better to be a hog than a turkey.'"

The car manufacturers, who appeared to be doing brisk trade with demo models on the hotel's front drive, were also fairly bullish. Mr. Roger Smith, chairman of General Motors, said his company had called back 45,000 workers since the start of the year and another 20,000 are on notice to come back. "Our order book is probably the strongest for three years," he said.

Those representing the housing and electronics sectors also reported a brisk upturn but in other areas like capital goods, agricultural machinery, steel, chemicals and transport sectors, the recovery has yet to be seen.

## Glenn pulls ahead of Mondale in new poll

By Reginald Dale, U.S. Editor, in Washington

THE RISE of Senator John Glenn as a potential challenger for the U.S. presidency received a further boost yesterday, as an opinion poll for the first time put him ahead of former Vice-President Walter Mondale, who is generally considered to be the front runner for next year's Democratic nomination.

A nationwide poll of registered Democrats carried out by the Los Angeles Times gave 28 per cent backing to Mr. Glenn, the former astronaut who is now an Ohio Senator, against 26 per cent for Mr. Mondale. Only a month ago, a similar poll showed Mr. Glenn trailing Mr. Mondale by 17 to 34 per cent.

The latest poll was immediately attacked by Mr. Mondale's advisers as "fundamentally out of step with all other available public data." It nevertheless confirms recent private soundings that have indicated a surge of support for Mr. Glenn and suggested that Mr. Glenn might be more likely than Mr. Mondale to beat President Ronald Reagan if he decides to run again.

Mr. Glenn's supporters claimed that the new figures were bound to weaken Mr. Mondale's strategy, which was based on the premise that he already secured the nomination. They should also help significantly in expanding support for Mr. Glenn and for raising campaign funds, they said.

## Ministers try to end deadlock over EEC farm prices

BY JOHN WYLES IN BRUSSELS

EEC AGRICULTURE Ministers meet in Brussels today to try to end a political deadlock over new Community farm prices which appears to be hardening because of looming elections in Britain and Italy.

Although agro-monetary issues will be well to the fore, negotiations may stumble over the late and ambitious demands of the Sicilian Minister, the Italian Minister.

He is arguing that the 4.2 per cent average price rises which the European Commission is insisting upon are an insufficient return for his farmers who are labouring under a 16 per cent domestic inflation rate.

With both eyes on the Italian elections on June 20, Sig. Mannino wants a system of interest rate subsidies on credits for Italian farmers which may cost as much as £150m.

This brings him into direct conflict with Mr. Peter Walker, the British Minister. In the past three years, Mr. Walker has acquiesced to generous farm price deals but, with British elections on June 8, he is inflexibly opposed to adding any additional costs to the outline package.

Mr. Gaston Thorn, the Commission President, was in Rome last week trying to encourage

a more compromising line from Sig. Mannino and reminding him of the very real limits to future farm spending now being imposed by the Community's money shortage.

The other main unresolved issue concerns the taxes and subsidies on intra-Community farm trade, known as monetary compensatory amounts. France is insisting on a minimum 3 per cent reduction on the 13 per cent tax imposed at the German border. This looks likely to be a general 1 per cent revaluation of the European currency unit (Ecu) to take account of an 8 per cent rise in sterling since the March currency realignment to the European Monetary System.

France and Germany appear close to a compromise on this point which would have sealed a farm price deal this year but for the Italian intervention. If this week's talks, which could stretch until Wednesday, fail to reach agreement some very angry reactions are likely from the farming community, particularly in France. There would then be a real risk of no agreement until after the Italian elections, which would mean one of the longest delays in settling new common prices in EEC history.

## Chilean junta cracks down on opposition

BY MARY HELEN SPOONER IN SANTIAGO

CHILEAN military police, army troops and civilian detectives mounted a huge police operation in several working class neighbourhoods of Santiago early on Saturday, arresting over 2,000 people.

The raids came in response to the funeral Friday of a 22-year-old taxi driver killed on Wednesday night, apparently by police, during demonstrations against the military Government. Residents of La Victoria, one of the low-income neighbourhoods raided the home of the dead taxi driver, reported that the police forces began pounding on their doors at 4am, using loudspeakers to order all men and boys between 14 and 45 to leave their homes. Army troops blocked off the areas, preventing local inhabitants from leaving and outsiders from entering.

Those detained were taken to two football fields and charged for identification documents and work contracts. Most of those with their papers in order were released after a few hours but between 100 to 400 men were reported to remain in detention.

A communique from the Santiago state of emergency military headquarters said the operation had been carried out due to "numerous reports" of armed attacks on police officials in the area. The Communique said the "criminal and subversive delinquents" had been detected in the neighbourhood. The Government news agency Orbe reported that police found two sub-machine-guns, two revolvers and two pistols in one of the areas raided.

A military sweep of low-income areas appears to be the first of a series of actions General Augusto Pinochet's regime has promised to take to quell a recent surge of political protests and disturbances. On Thursday, Interior Minister Enrique Montecinos announced the President had approved a package of measures in response to a national protest organised by copper mine workers and other labour groups last Wednesday.

The Government's national statistical institute reports unemployment at 20.1 per cent.

## Peking jails editor on Hong Kong spy charge

BY MARK BAKER IN PEKING

ONE OF Hong Kong's most influential newspaper editors has been jailed for 10 years by the Chinese Government for allegedly spying for the U.S.

Lo Cheng-Hsun, 62, was editor-in-chief of the Chinese-language New Evening Post, which is regarded as an unofficial mouthpiece of the Chinese Government in Hong Kong.

The official news agency, Xinhua, announced yesterday that Lo had been convicted as "a foreign spy" by the Peking intermediate people's court. The judgment handed down by the court says that Lo became a spy several years ago for an American intelligence agency for which he provided important secret information about China's political, diplomatic and military affairs and from which he received regular subsidies, Xinhua said.

The agency said Lo had pleaded guilty and had not taken up an option to appeal after the court sentenced him to 10 years' jail and three years' deprivation of political rights. Lo is believed to have been arrested last May after being recalled to Peking for meetings with Government officials.

The "New Evening Post," which he had edited since 1951, is believed to be owned indirectly by the Chinese Government. It has a status similar to the big provincial newspapers on the mainland and many of its staff were appointed from Peking.

Lo worked in the Communist underground press during the war of liberation and was sent to Hong Kong to found the New Evening Post after the war.

Sources in Hong Kong say he maintained a wide circle of foreign friends and had journalistic contacts with prominent Taiwanese in Hong Kong. An art collector and writer in his spare time, he is said to have made a lot of money from selling traditional Chinese scrolls and paintings obtained cheaply during the Cultural Revolution. He owned a house in England, where his son is being educated.

His standing with the Chinese Government was indicated in 1981, when he was elected to sit on the Chinese people's political consultative conference, an advisory assembly, as a representative of Hong Kong.

His daily column was regarded by China-watchers as one of the best-informed sources of information on Chinese foreign policy issues, particularly the Sino-U.S. relationship.

## Germany and Libya again swap prisoners

By James Buchanan in Bonn

EIGHT West Germans held in Libya for the past month were yesterday exchanged at Frankfurt Airport for two Libyan citizens. It was the culmination of an elaborate swap of prisoners which is causing some unease in the UK.

The eight employees of West German companies contracting in Libya, were arrested in the middle of April and charged with espionage and other offences. This occurred shortly before proceedings opened in Bonn against the two Libyans, who were charged with torturing two Libyan students at the Libyan People's Bureau (ambassy) last November.

The Bonn Government said yesterday that it had asked the local judicial authorities to lift the charges against the two Libyans on "humanitarian" grounds so that they could be deported.

This followed last weekend's exchange of four West Germans, who were jailed for espionage and other offences in Libya two years ago, they were swapped for a Libyan serving a life sentence for the 1980 shooting of a former Libyan diplomat in Bonn's main square.

However, there have been fears that the swaps could endanger employees of contracting companies in Libya, including as many as 3,000 Germans, and would do nothing to curb terrorist actions in Europe against opponents of Colonel Gaddafi's Government in Tripoli.

## Bonn faces civil service pay fight

By Our Bonn Correspondent

WEST GERMAN civil servants yesterday reacted with alarm to reports that the Bonn Finance Ministry is hoping for a freeze in their salaries in 1984 as part of consolidation of state finances.

The response of the civil servants' union yesterday comes at the start of a week when senior ministers will meet to find ways of cutting a further DM 6.5bn (£2.7bn) off the 1984 budget in order to come under a ceiling of DM 40bn for net borrowing set by Herr Gerhard Stoltenberg, the Finance Minister.

above it on either side, the Bekaa is green with vegetables and vineyards. Shepherds, often on horseback tend large flocks of sheep.

There is little sign of hashish, however, whose vivid green plants were previously a common sight and the main cash crop of the region around Baalbek, a bustling town centred on the ruins of huge Roman temples. The reason has little to do with war or peace. It is rather that Egypt, to which 80 per cent of the Bekaa's hashish previously went, has clamped down on the drug, making it difficult to sell.

The attitude of the new Lebanese Government in Beirut towards hashish is also unclear. This has increased the economic malaise in an area already battered by war. Electricity was restored two months ago

it comes from a hydroelectric power station under Israeli control in the southern valley and last year's bomb craters are covered in grass. But beside the road there are fresh scrapes of earth where Syrian tanks dig themselves in.

There were no signs yesterday of the mutiny reported to have taken place among Palestinian forces. It is in any case clear that the Syrians are in absolute control of the area. The main Palestinian refugee camp at Baalbek is calm.

The Bekaa has lived too long in expectation of battle for the atmosphere to be tense.

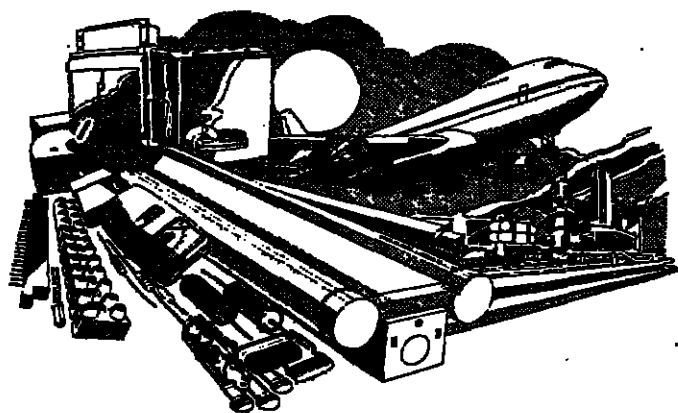
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## WORLD TRADE NEWS

# Syrian contracts awarded to East Bloc companies

By PATRICK COCKBURN, MIDDLE EAST CORRESPONDENT

SYRIA is awarding a series of contracts to Soviet and East European companies which Western companies thought they were going to win before last summer's Israeli invasion of Lebanon brought closer relations between Moscow and Damascus.

The most important of these contracts is a \$200m (£127.6m) power station called Damascus South which the Swedish company ASEA, in association with Crensat Loire of France, believed they were about to win. Other bidders were Mitsubishi of Japan and Brown Boveri, the West German electrical company.

The Syrians recently asked for the time for bids to be extended, making original pricing estimates unrealistic and leading to all the Western companies pulling out. Diplomats say that this was in order to award the contract to the Soviets.

Syria has also for the first time bought three TU154 medium range Soviet passenger aircraft, for \$51.6m. Ten per cent of payment is in cash and the rest is to be paid over eight years at 5 per cent interest.

British consultants Henderson Busby Partners have also lost a contract to carry out a modernisation study for Syrian railways. The contract was signed but not ratified and has now gone to a Soviet company. Soft loans to finance projects are all the more necessary to Syria at the moment because of a shortage of foreign exchange. There is now a six-month delay between the Government granting an import licence to a Syrian private business or state organisation and the opening of a letter of credit. This is leading to a fall in imports and some minor shortages of consumer goods.

The Syrian financial difficulty seems to stem primarily from an

increase in defence expenditure, as a result of last year's war. It is likely, however, that the Soviets are now providing weapons on a credit basis and the award of Syrian contracts to Soviet companies may be Syria's quid pro quo.

The Saudis are still giving aid to Syria at the rate of about \$800m a year and the other Gulf states are also making contributions. Last year total aid from the Gulf states is said by diplomats to have reached about \$1.2bn.

The figure may be curtailed this year by a fall in donors' oil revenues. Syria also gets part of its oil imports from Iran at a reduced price, including 1m tons free.

With 75 per cent of imports coming through the state organisations, the private sector in Syria is being progressively squeezed. In seeking an import licence, businesses have to put down 15 to 25 per cent of the value of the letter of credit they are seeking, but may not be able to open the letter of credit for up to six months.

British companies last year exported \$89.5m worth of goods to Syria, mainly machinery, chemicals and pharmaceuticals. However, this does not include defence related goods such as Land-Rovers and communications equipment.

The six-nation Gulf Co-operation Council will apply a new unified customs levy of between 4 and 20 per cent on imported goods from September 1. A United Arab Emirates Ministry official said, Reuters reports from Abu Dhabi.

The decision was made in Riyadh last week during a meeting of the Council's finance ministers. The Council groups Saudi Arabia, Bahrain, Qatar, Kuwait, the UAE and Oman.

Member states of the two-year-old Council have signed an economic agreement designed to establish a common market.

# Baldrige bid to smooth U.S.-Asian trade links

By Nancy Dunne in Washington

MR MALCOLM BALDRIGE, U.S. Commerce Secretary, is due to arrive in Tokyo today on the start of a 10-day Asian trip during which he will attempt to smooth troubled trade relations between the U.S. and China and Japan.

In Tokyo he will meet Prime Minister Yasuhiro Nakasone to push for a reduction of barriers to American exports for instance, and by policy disputes, the foremost of which is U.S. ties with Taiwan.

On U.S.-China relations, the trade climate has been marred by a stalemate in negotiations over American textile quotas and by policy disputes, the foremost of which is U.S. ties with Taiwan. Total trade dropped last year to \$15.2bn (\$3.3bn) from \$15.5bn in 1981, and, if relations do not improve, it is likely to decline again this year.

"I would hope we could get trade issues put in one compartment and not let them get interwoven with political issues," Mr Baldrige said on Friday.

He said that the U.S. views the textile issue as "a regular commercial trade dispute, a normal part of Western life," but that the Chinese look at it "differently."

The U.S. imposed unilateral quotas on 33 categories of Chinese textiles after negotiations in January failed to reach an agreement about the level of increase of Chinese textiles.

In the acrimony which followed, the Chinese claimed that U.S. negotiators had been dishonest and U.S. officials said the talks had been plagued by Chinese procrastination, inefficiency, and secrecy.

Textile negotiators recently completed their sixth set of talks with some progress made, according to Mr Baldrige, who said they will meet again "in the near future."

Despite the Reagan Administration's efforts to contain the sale of strategically important high technology equipment to Communist countries, Mr Baldrige said a steady increase in U.S. technology transfers can be accomplished if it is "accompanied by friendly relations."

He said the U.S. offers China "a good fit for its needs." China is seeking to develop its offshore oil fields, coal reserves, hydroelectric power and telecommunications networks, and Mr Baldrige will tell them that U.S. technology is the best available.

U.S. investment in China has been hampered by a hazy legal system and secret regulations, U.S. officials say.

The large, high-powered delegation of officials accompanying him will divide into three working groups to discuss industrial cooperation, trade relations including controls and barriers and commercial law and patents.

# Brazil set to join top car producers

By KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

CAR PRODUCTION in Brazil by 1985 will be well ahead of output in the UK.

By that time Brazil will be neck and neck with Spain, contesting for sixth place in the world league of car producers.

And, according to the latest forecasts by DRI Europe, the London-based former Economic Models group, by 1985 North American car production will be re-established at the top of the league, taking that position back from the Japanese.

Brazilian car production and assembly reached 900,000 in 1980 but dropped sharply in subsequent years. DRI estimates it will be 769,000 this year and by 1985 will reach 1.53m.

Compared with this, UK car output is forecast to be 1.7m this year, is expected to touch 1m in 1984 but in 1985 DRI looks for production of only 988,000 cars.

Meanwhile, Spanish production will be boosted this year by the new 250,000-a-year General Motors' plant and should reach over 1m, rising to 1.18m by 1985.

Dealing with the short term, the DRI world automotive forecast report suggests that the fundamentals of the world

economy provide little support for a recovery in the motor industry during 1983.

"With the exception of North America, where gathering recovery will prompt a reversal of trends, the current year will prove little better — and in some cases worse — than 1982," it states.

In Western Europe total car demand will be pulled down by problems in France — mainly political and labour — and Italy — where the auto industry went into recession later than the rest of Europe — so that production will barely exceed last year's 9.9m.

DRI points out that "recent product spending of the industry stands starkly against this constrained short term demand outlook. Overcapacity in the industry will make it impossible for most participants to earn an adequate return on this investment."

However, the medium term outlook provides a rather brighter prospect.

"As the North American recovery gathers pace and that of Europe and, later, Latin America follow, the car industry will draw sustenance from its traditional areas of strength. World economic recovery will allow the strong underlying demand for private transporta-

NEW CAR SALES (millions)	1983	1984	1985
West Germany	2.22	2.27	2.34
France	1.91	2.00	2.06
United Kingdom	1.68	1.65	1.71
Italy	1.61	1.70	1.72
Total Western Europe	70.00	70.30	71.09
United States	9.01	10.34	11.36
Japan	3.13	3.20	3.28
Brazil	0.62	0.79	1.21
Spain	0.54	0.57	0.70

CAR PRODUCTION (millions)	1983	1984	1985
West Germany	3.63	3.73	4.13
France	2.48	2.76	2.84
United Kingdom	1.00	1.01	0.96
Italy	1.40	1.49	1.53
Total Western Europe	10.41	10.78	11.50
North America (inc. Canada)	7.17	8.13	8.92
Japan	7.08	7.58	8.05
Brazil	0.77	0.97	1.40
Spain	1.02	21.14	1.36

Source: DRI World Automotive Forecast Report April 1983

tion to be translated into new high levels of car sales.

"As consumer confidence is restored, 1984 and 1985 will witness a strong recovery for the industry."

The report adds that, though demand in Western Europe will reach a new peak of 11m by 1985, Europe's export surplus is still diminishing. The total of 2m cars exported annually in the early 1970s from Europe will have fallen to only 500,000

in the early 1980s, implying that total output will remain below the record achieved just prior to the first oil crisis.

The report provides forecasts of new car registrations and production—by manufacturer for major countries—cars in use, exports and imports for 25 countries.

"DRI World Autos Forecast Report" \$1,600 or £900 from DRI Europe, 30 Old Queen Street, London SW1H 9HP.

# Bombardier joint bid for Singapore subway deal

By Robert Gibbens in Montreal

BOMBARDIER, THE Montreal based transport equipment group, has linked up with two other Canadian companies to bid for a major portion of the proposed \$2.5bn Singapore subway system. All three had been prequalified as bidders.

Bombardier, along with Metro Canada International of Toronto — a joint company owned by the major engineering and construction management group Lavale of Montreal — and Urban Transportation Development—owned by the Ontario Government—will now make a joint bid for about \$600m of Singapore contracts.

# N-reactors for Egypt

By Charles Richards in Cairo

WEST GERMANY is confident of selling nuclear reactors to Egypt, but will not finance their purchase.

Mr Heinz Riesenhuber, the West German Minister of Research and Technology, said in Cairo that his government's policy was not to finance this kind of project, but only to provide some kind of guarantees.

He said Kraftwerk Union, the West German company which is bidding for the contract, would have to finance the project itself.

The Egyptian Nuclear Power Plants Authority has invited companies from France, the U.S. and West Germany—the three countries with the appropriate technology that have signed nuclear agreements with Egypt—to tender for the supply of two 1,000 Megawatt pressurised water reactors to be built at Al Daba on the northern coast, 160km west of Alexandria.

The tanker market began last week with a large amount of enquiry, but the impetus was not kept up. But sentiment, according to Galbraith, has improved.

# SHIPPING REPORT

# Bulk carrier prices remain firm after recent uplift

By ANDREW FISHER

BULK CARRIERS were at the centre of attention in second-hand shipping markets last week, with prices staying firm after the uplift in recent months.

One British flag bulk carrier, the Clyde-built Baron Napier of 26,900 deadweight tons, went to Greek buyers for \$7.5m (\$4.78m). The El General, four years younger and built in 1980

at a Japanese yard, is likely to go for nearly \$8.5m. This ship, suited to work on the Great Lakes, is larger at 27,300 dwt.

The fact that second-hand values have risen does not, however, mean that freight markets are recovering sharply, though there has been some improvement. Denholm Coates reported that dry cargo rates continued to edge higher last week.

Denholm said a lot of the better fixtures were not being reported. "While this is not unusual at any time, the pressure from charterers for private and confidential clauses underlines their fears of further rate improvements."

The activity in secondhand markets reflects concern among shipowners lest they be left behind now that prices have stopped falling. The G.P.

Livanos group of New York, a heavy buyer of bulk carriers some two months ago, was reported by shipbrokers Galbraith Wrightson as having paid around \$9.5m for the 35,160 dwt Becknes, built in Japan in 1977.

The tanker market began last week with a large amount of enquiry, but the impetus was not kept up. But sentiment, according to Galbraith, has improved.

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# World Economic Indicators

RETAIL PRICES  
(1975 = 100)% change  
over

	Mar. '83	Feb. '83	Jan. '83	Mar. '82	previous year
UK	242.2	242.8	241.7	232.5	4.4
W. Germany	138.4	138.7	138.4	133.9	3.5
France	221.6	219.6	218.0	203.3	9.0
Italy	332.4	324.3	327.2	287.2	14.1
Netherlands	155.3	155.0	154.7	151.1	2.8
Belgium	168.0	167.3	166.3	154.1	9.0
U.S.	182.0	181.7	181.8	175.4	3.4
Japan	149.1	148.4	149.0	146.0	2.1

Source: Eurostat

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IN MALAYSIA

# Important Message to Fitch Lovell Shareholders

From the Fitch Lovell Board

# KEY MARKETS

- Safeway have increased their offer for Key Markets to £37.8 million—matching Linfood Holdings' offer.
- Safeway's offer is certain. Linfood Holdings' offer needs their shareholders' consent.
- Continue to preserve your Board's freedom to act in your best interests.

# YOUR BOARD'S RECOMMENDATION

- It is vital you complete and return immediately the WHITE proxy form voting FOR all the Resolutions.
- IGNORE the GREEN PROXY FORM.

Your WHITE Proxy forms must be received by 3.00 p.m. on Wednesday, 18th May, 1983.

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A statement presented to the U.S. President, the union leaders said that "full employment and improvement in labour standards must once again be recognised as a necessary condition for a properly functioning, open trading system. Competitiveness must not be sought through unemployment and cuts in wages and living standards. Effective measures for trade liberalisation are fruitless unless trade flows are translated into a net increase in jobs and productive economic activities in all trading partners."

**POLAND'S** industrial production fell 7.2 per cent last month compared with March, but showed growth of 10 per cent in the first four months of the year against the same period of 1962, according to government figures. The April production of many basic goods in output from the food industry, where meat and alcohol production were lower.

Manufacturing industry's output grew at a rate of 10.5 per cent over the first four months and continued to outstrip growth in the extractive sector, which was 4.3 per cent in March, but fell 1.5 per cent in January to April, 1962. This reflects the year's trend, when the recovery in coal production brought about by longer working hours, pulled up industrial production figures as a

ning at last year's level, with the April figure slightly down.

Exports to hard currency countries continued to be weak, with a growth in the first four months of 1.9 per cent, put at \$1.46bn in value. Hard currency imports, however, grew by 25 per cent, at \$51.6bn in value, with a surplus on the trade for the first four months of the year of \$270m. This compares with \$480m for the first four months of 1962.

Retail sales volume grew by 6 per cent in April compared with April 1962, with food sales at the same level as last year. Sales of durable goods and agricultural machinery up 14 per cent. Stocks of consumer goods are growing, however, with their value 25 per cent higher at the end of April 1962 than at the end of December 1962.

THE YEAR-END REVIEW

misled for November 6.

● Turkey yesterday described the United Nations call for the withdrawal of foreign troops from Cyprus as "unbalanced," and hinted there could be "unexpected developments" if Greek Cypriot attitudes continued.

A Foreign Ministry spokesman said the UN resolution gravely distorted the facts about Cyprus, which has been divided since a Turkish invasion in 1974 and could seriously hamper the search for a solution to the island's troubles.

Agencies

**BAGHDAD** - President Saddam Hussein of Iraq said yesterday that some countries had reconsidered lending him country money, partly because of its Gulf War against Iran.

The official Iraqi news agency (INA) reported that the Iraqi President told Al-Wakeel Al-Arabi, a Paris-based Arabic-language magazine, in an interview that the situation of Iraq's economy after 32 months of war was different from pre-war days.

"Some of our brothers who used to extend loans to us have reconsidered their stand, either because of the long war period or because of lack of their capabilities," he said.

He said Iraq was considering alternative ways of exporting its oil, including a new pipeline through Jordan.

Before the war, Iraq exported about 3m barrels of oil a day, but closure of the Shatt al-Arab waterway into the Gulf has left it dependent on a single pipeline through Turkey to the Mediterranean with a daily capacity of 700,000 barrels.

Saddam Hussein said other possibilities were to build a pipeline through Saudi Arabia to the Red Sea or expand the Turkish one.

He also disclosed a previously unannounced recent visit to the Soviet

Financial Times conferences have a high reputation throughout the business world as an opportunity to exchange ideas and keep up with the latest developments in all areas of activity.



## World recovery will boost exports

JAPANESE economic growth has slowed to a moderate 3.4 per cent since the two oil crises. It entered its current recession in the summer of 1980. In the spring of 1981 the recession appeared to turn, but it slipped again in 1982.

The general consensus among the Government, banks and private research organisations is for some recovery in the course of this year. Economic recovery in the U.S. and a consequent pick-up in world trade is expected to have a favourable impact on Japanese exports.

The exchange rate, although unstable since the beginning of this year, recovered from its unexpectedly low 1982 rates. As 60 per cent of export contracts and nearly 100 per cent of import contracts are quoted in foreign currencies, a fall in the yen rate—all other things being equal—means Japanese purchasing power effectively flowing overseas.

The February survey by the Bank of Japan found companies planning to cut their investment in plant and equipment this year from the levels of 1982, the first such decline for five years.

The manufacturing companies surveyed said they expected their operating profits to fall 13.7 per cent in the second half of fiscal 1982 on the previous half-year, a downward revision from a 5.3 per cent fall for the same period in the previous survey.

Corporate bankruptcies in February totalled 1,334, the second highest level on record for a February. They

reflected generally depressed profits and the difficult operating conditions which face small and medium-sized firms.

Unemployment fell in March to 2.6 per cent, down from 2.7 per cent in January and February. It ended the fiscal year at 2.5 per cent, the highest level of unemployment since 1955. The Ministry of Labour attributed the March decline to a fall in the number of women seeking work. Job security among Japanese youth, as in all industrial economies, has shown a considerable decline over the past year as the table illustrates.

With share prices reaching ever-increasing highs on the Tokyo Stock Exchange, foreign trading activity is becoming increasingly important. Europe, South-east Asia and the U.S. account for 62, 21 and 14 per cent respectively in overseas exports.

Japanese industry is dominated by a small number of extremely large business groupings, made up of formally distinct parts with many links between them, operating in all the major sectors of the economy with a bank and trading company in each group.

Both the U.S. and EEC have been highly critical of these groupings, labelling them typical of the socio-economic barriers peculiar to Japan that obstruct foreign access to the domestic market. It is vital that Japan, by encouraging imports, frictionless exports, industrial and technological co-operation, prevents protectionism and promotes free trade.

Japan's formal reliance on America for military protection has enabled it to restrict defence spending to less than 1 per cent of gross national product.

### GROSS NATIONAL EXPENDITURE

Ministry of Finance forecasts\*

	1981	1982	1983	% change	1982/1981	1983/1982
Private final consumpt. expend.	147.1	157.6	169.3	7.2	7.4	7.4
Private residential invest.	14.8	15.1	15.8	1.9	4.3	4.3
Private plant & equip. invest.	39.1	39.2	40.7	0.2	3.9	3.9
Increase in private stock	1.4	1.0	1.4	-27.6	37.8	37.8
Government expenditure	49.7	51.4	51.6	3.3	0.4	0.4
Final consumption expend.	25.9	26.9	27.9	3.8	2.3	2.3
Fixed capital formation	24.0	24.5	24.1	1.8	-1.6	-1.6
Exports	42.3	45.1	46.6	4.0	3.5	3.5
Imports	41.6	42.6	43.7	2.5	2.5	2.5
GNP	253.8	266.7	281.7	5.1	5.4	5.4
Real GNP	—	—	—	3.1	3.4	3.4

\* Figures relate to financial years

Source: Ministry of Finance

## Labour

Employment	Productivity	Earnings
1980=100 1975=100 1980=100		
1972 94.2 89.0 38.5		
1973 96.8 104.6 46.8		
1974 97.0 104.1 59.5		
1975 95.4 100.0 65.3		
1976 95.4 112.3 76.9		
1977 96.7 118.0 83.4		
1978 97.2 127.4 88.8		
1979 98.5 142.8 94.1		
1980 100.0 156.0 100.0		
1981 101.9 161.5 105.3		
1982 103.1 163.8* 110.0		

\* January-November.

Source: Ministry of Labour

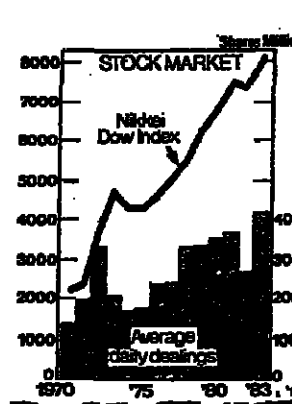
## Finance

EMPLOYMENT SITUATION	Senior high school graduates (March 1983)	Year
School Courses	seeking security ratio	ratio
General	23.0	65.6
Agriculture	69.7	58.9
Industry	74.5	71.5
Commerce	77.0	68.8
Fisheries	73.3	52.3
Home	65.0	69.4
Nursing	29.9	25.4
Other	16.3	64.3
Public	37.5	67.6
Private	38.4	64.7
Total	37.7	66.8

\* Job seeking/total students.

Source: Oriental Economist

## Stock Market



## SHARE OWNERSHIP\*

	% share of total ownership		% share of total activity	
	1962	1972	1982	1982
Financial inst.	21.3	32.6	36.5	4.3
Individuals	46.7	37.2	28.5	40.9
Business corps.	18.7	23.6	26.3	5.8
Foreigners	1.7	3.5	4.6	11.3
Invest. corp.	8.6	1.3	1.8	4.5
Securities cos.	2.8	1.5	2.1	21.9
Gvt. & pub. inst.	0.2	0.3	0.2	1.3

\* Based on dealings of 12 (14—1982) largest security companies on Tokyo S.E.

Source: Phillips and Drew

\* Based on dealings of 12 (14-1982) largest security companies on Tokyo S.E.

Source: Phillips and Drew

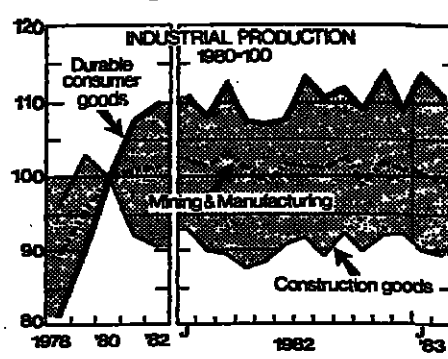
## FOREIGN INVESTMENT

	Foreign inv. in Japanese sec.	Japanese inv. in foreign sec.
	Settlement basis \$m	Settlement basis \$m
1973	-19	-638
1974	237	-1,132
1975	924	-166
1976	1,714	-108
1977	2,093	-775
1978	2,463	-805
1979	1,741	-685
1980	5,330	4,999
1981	5,772	3,520
1982†	2,675	735

† January-September. \* Public and corporate bonds.

Source: Oriental Economist

## Industry

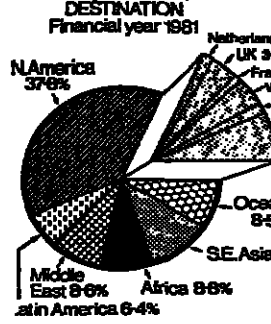


## VEHICLE PRODUCTION By manufacturer, 1982

	Units	Share of domestic sales	Share in total production
	(000s)	1982	1976
Toyota	3,145	38.8	29.3
Nissan	2,408	28.2	25.4
Toyota Kogyo	1,110	8.7	10.4
Honda	1,020	4.4	9.3
Mitsubishi H.	969	8.4	9.0
Suzuki	603	—	5.6
Fuji Heavy	514	—	4.8
Daihatsu	464	1.3	4.3
Izumi	405	4.6	3.8
Hino	61	0.9	0.6
Nissan Diesel	37	0.5	0.3
Total	10,737	—	100.0

Source: MITI

## VEHICLE EXPORTS BY DESTINATION



## SHIPBUILDING

	'000 gross reg. tons	World share %†
	Under construction	
1975	12,497	36.1
1976	13,170	20.4
1977	5,543	33.9
1978*	5,246	31.4

† Excluding China and USSR. \* First three quarters.

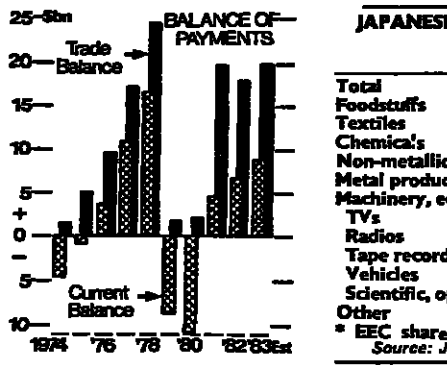
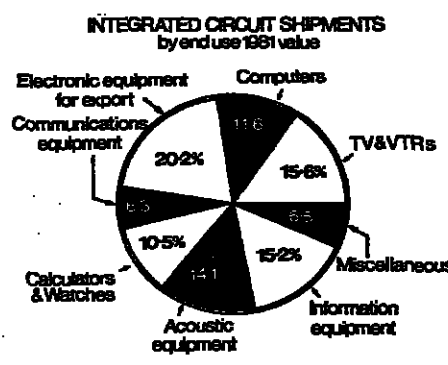
## DATA PROCESSING

DATA PROCESSING			
Sales targets, seven major computer manufacturers			
	Ybn	% Increase	
	Fisc. 82	82/81	83/82
Fujitsu	530	+18.2	+
IBM	495	+15.4	+
NEC	389	+17.0	+
Hirachi	330	+14.6	+
Osaka	130	+19.2	+
Toshiba	130	+36.8	+
Mitsubishi	88	+20.5	+

Source: Grieseson, Grant and

Source: Grieson, Grant and Co

## Trade



## JAPANESE EXPORTS TO EEC

	1982	% total exports*
Total	17,064	12.3
Foodstuffs	87	6.2
Textiles	421	6.8
Chemicals	682	10.7
Non-metallic min.	113	5.8
Metal products	703	3.3
Machinery, equip.	12,979	14.3
TVs	169	11.4
Radio	413	17.2
Tape recorders	2,210	40.4
Vehicles	2,321	9.4
Scientific, optical	1,483	30.6
Other	2,079	18.6

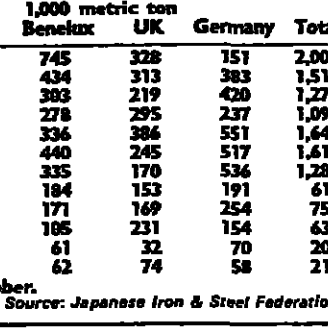
\* EEC share in exports

## FALL IN STEEL EXPORTS TO EEC

	Italy	Belgium	UK	Germany	Total
1971	645	745	328	151	2,000
1972	645	434	313	383	1,516
1973	210	303	219	420	1,278
1974	218	278	295	237	1,090
1975	209	336	386	551	1,440
1976	249	440	245	517	1,416
1977	164	335	170	536	1,286
1978	51	194	153	191	618
1979	123	171	169	254	754
1980	99	105	231	154	633
1981	15	61	32	70	205
1982*	11	62	74	58	216

\* January-October.

## STEEL EXPORTS BY DESTINATION



## Research and development

R & D EXPENDITURE	Ym (Fiscal years)	Total	Natural sciences	Ym (Fiscal years)	Total	Natural sciences
1971	1,532.4	1,545.9	2.33	1971	1,532.4	1,545.9
1972	1,791.9	1,596.7	2.31	1972	1,791.9	1,596.7
1973	2,215.8	1,980.9	2.32	1973	2,215.8	1,980.9
1974	2,716.0	2,421.4	2.42	1974	2,716.0	2,421.4
1975	2,974.6	2,621.8	2.41	1975	2,974.6	2,621.8
1976	3,320.7	2,941.4	2.40	1976	3,320.7	2,941.4
1977	3,651.3	3,233.5	2.39	1977	3,651.3	3,233.5
1978	4,045.9	3,570.0	2.42	1978	4,045.9	3,570.0
1979	4,583.6	4,063.6	2.56	1979	4,583.6	4,063.6
1980	5,246.2	4,683.8	2.71	1980	5,246.2	4,683.8
1981	5,982.4	5,364.0	2.96	1981	5,982.4	5,364.0

Source: Oriental Economist

## Defence

DEFENCE SPENDING	1980 Fiscal year	Per cap. \$	% of govt. expend.	% of GNP
USSR	574	na	11-13	
U.S.	644	23.3	5.2	
China	56	18.0	9.0	
W. Ger.	410	22.2	3.3	
UK	437	10.7	4.9	
Saudi	2,518	28.1	15.0	
France	374	17.5	3.9	
Japan	75	5.2	0.9	
Italy	124	8.2	2.4	
Holland	374	7.3	3.4	

\* Ranked by total defence spending.

Source: The Military Balance 1980-81; USA and Phillips & Drew

## DEFENCE CONTRACTORS

	Procurement contracts 1981 fiscal yr.	Value	% of Compt. total sales %
		Ym	
Mitsubishi	Heavy	105,215	13.9
Kawasaki	60,264	7.9	7.9
Mitsubishi	58,613	7.7	4.5
Ishikawajima-Harima	35,468	4.7	4.6
Toshiba	32,194	4.2	1.8
Hitachi Zosen	17,245	2.3	3.6
NEC	16,380	2.2	1.6
Mitsui Zosen	15,448	2.0	4.2
Japan Steel	14,654	1.9	10.7

Source: Phillips and Drew

## Energy

NUCLEAR POWER DEPENDENCY	International comparisons, 1980	Output Depend. World	100m KWH	share %
Switzerland	136.6	28.4	2.0	
Sweden	254.0	27.1	3.8	
France	530.0	23.6	8.6	
Belgium	110.0	21.3	1.4	
Finland	66.8	17.1	1.0	
Japan	790.9	13.8	11.7	
Bulgaria	57.0	13.8	0.8	
Taiwan	63.0	12.9	0.9	
Britain	329.9	12.1	4.8	
U.S.	2,519.4	11.3	37.4	
World	6,739.1	8.0	—	

Source: Japan Atomic Industrial Forum

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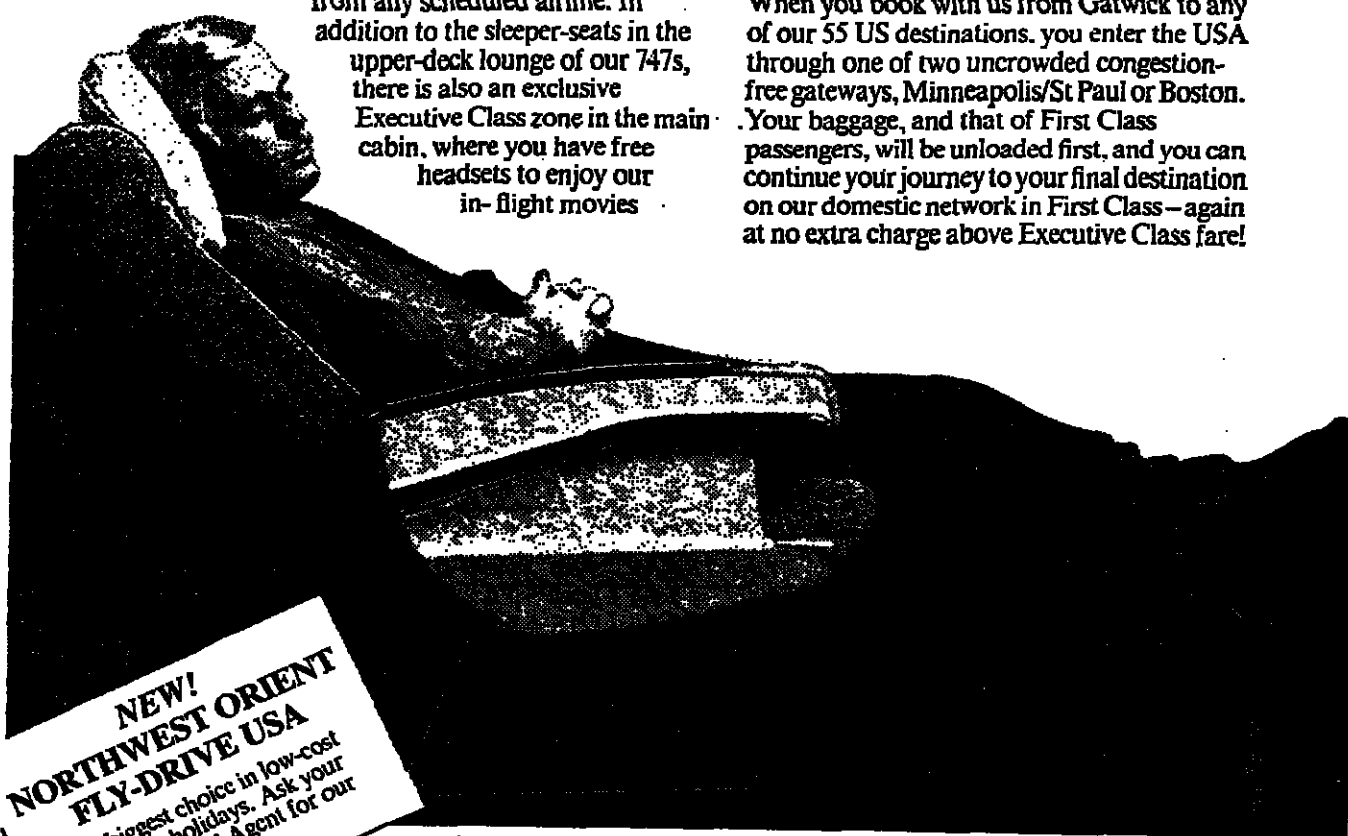
## UK NEWS

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## Missing Hunt's secrets

By Clive Wolman

THE MISSING Warwick investment manager Mr Keith Hunt developed a trading system for beating the world commodity markets which was capable of achieving the 88 per cent average annual profits he claimed to be making since 1978, according to his researchers.

In the four weeks since the disappearance of Mr Hunt, whose affairs are being investigated by a police fraud squad, five of his top researchers have been sifting through the mass of data and statistical analysis of commodity futures price movements which Mr Hunt had accumulated.

His staff believes 34-year-old Mr Hunt left Warwick so hastily, under pressure from the Trade Department to produce evidence of his market transactions, that he was unable to take with him any of his research material.

Mr Hunt took elaborate precautions to protect the secrecy of his trading system. The cellular structure of his 40-strong research team was designed to minimise communication between individual researchers.

## Government has tough pay terms for civil servants

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE GOVERNMENT is putting to leaders of Britain's 530,000 white-collar civil servants tough proposals for a new pay determination system which will lay much greater stress in negotiations on market forces and managerial requirements.

The proposals are contained in a confidential document prepared by the Treasury and have been under discussion in secret talks between Treasury officials and general secretaries of the nine Civil Service unions based on the findings of the Megaw inquiry on Civil Service pay.

Both sides expected to reach agreement on a new pay system by next month, but the general election announcement may have slowed down that timetable.

The Treasury and the Council of Civil Service Unions have been determined not to disclose details of the discussions before full agreement is reached, though indications of the union leaders' effective acceptance of many of the Megaw report's central proposals have already emerged in a draft agreement prepared by the general secretaries.

The Treasury's confidential draft agreement proposes the establishment of a Pay Information Board, as suggested by the Megaw report, to collect information on pay movements in the outside middle or 'inter-quartile' range of private sector pay settlements.

These would provide for major settlements every four years, with smaller-scale annual adjustments in between.

While the Treasury says the new board should agree with both unions and management its method of working, it completely rejects union claims that the new board should only provide information, rather than evaluate it.

The document states: "Having sought the broadest possible measure of agreement on the above matters, the responsibility for determining the inter-quartile ranges of pay movements and of total remuneration levels shall be that of the board."

## Companies get new guide on pensions

By Chris Cameron-Jones

A FIRST attempt to bring some uniformity to the pension fund jungle in British companies' financial reporting is published today, in draft form, by the accountancy profession.

The UK Accounting Standards Committee (ASC), which for a year has had a working party examining how companies should disclose the costs and liabilities related to employees' pension arrangements, has issued its proposals in the form of an exposure draft, ED32.

Disclosure about pension funds, which for most companies are major financial commitments, is required to be made this year under the 1981 Companies Act.

The ASC proposals, therefore, represent the draft real guidance on the way to satisfy the new legislation but do not guarantee full compliance with the law in every case.

The draft describes what should be mentioned in the accounts' reports, but it leaves the much tougher problem of the valuation methods to be applied for further consideration.

Basically the proposals mean company accounts would have to show arrangements for pensions in an understandable manner: any legal obligation made to maintain the solvency of a fund; how a scheme is paid for; and the accounting policies employed.

They would also have to reveal the pension fund charge made in the profit and loss accounts, pointing to any special payments, and any commitment to change the rates of contributions.

ED32 - *Disclosure of Pension Information in Company Accounts*. Publications Dept., PO Box 453, Chartered Accountants' Hall, Moorgate Place, London, EC2P 2BL. Price £1.

## BL's hopes for new car boom

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BRITISH LEYLAND's output could jump by at least a third if Britain's new car market was boosted to 2m a year.

This would have significant benefits for the UK motor component industry and suppliers of raw materials.

The Society of Motor Manufacturers and Traders (SMMT) has been pressing for the removal of the special 10 per cent tax on cars to help boost the market to 2m a year.

As part of its campaign, the SMMT today will link with the Confederation of British Industry for a conference in London attended by

senior managers from the motor industry and its suppliers and Industry Secretary Mr Patrick Jenkin.

If BL holds its share at 18 per cent as the market moves from last year's 1.5m to 2m by 1986, the group's output would rise from 270,000 to 360,000. If, as BL hopes, its market share rises to 20 per cent, the improvement in production would be of 48 per cent to 400,000 cars.

The impact on importers such as Volkswagen-Audi, Fiat and Renault would not be so dramatic, adding well under 2 per cent to their individual sales totals. For the Japanese, assuming that they continued to restrict themselves to 11 per cent of the market, the increase in volume sales would be under 1 per cent.

The argument becomes slightly blurred because the major importer to Britain is Ford. If Ford retained its 30 per cent share while the market rose from 1.5m to 2m, its sales would rise from 450,000 to 600,000.

For some years 60 per cent of the cars sold by Ford in Britain have been assembled on the European Continent. If this continued, its UK output would still rise from 225,000 to 300,000.

New Issue

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## UK NEWS

## London Trust ends Debrett's chapter

By Ray Maughan

LONDON TRUST, the City of London investment group, has ended its two-year association with the publishers Debrett's, the ancient chronicler of society's upper echelons.

Gentlefolk still do not like to talk about money so the consideration is not disclosed. But since the well-bred are just as much in tune as the well-to-do when it comes to the most fashionable method of striking a deal, the investment trust's 75 per cent holding has been acquired by a management consortium.

The management buy-out is headed by Mr Ian McCordquale and Mr Robert Jarman, respectively chairman and managing director of the publishing company. A couple of other, unnamed, investors have also joined the consortium.

The transaction has been negotiated in the latest business book style, and the final price will be calculated on an "earn-out" basis. Debrett's does not say how fast and how far profits have to be achieved under the payment formula.

London Trust, which numbers among its unquoted investments companies such as Swishale, Peculier Properties, London Trust Cultural Productions and Bloomsbury Investments of the British Virgin Islands, has been clearing out its portfolio of unlisted holdings.

The Debrett's consortium was formed two months ago in the knowledge that the business was up for sale. Competing tenders from a number of other publishing houses are understood to have been submitted.

Debrett's has been losing money recently, but Mr Jarman was confident yesterday that "we're going to be profitable".

The company has negotiated "lots of American and Canadian deals," he said. Coming shortly is Debrett's Guide to the Texas Peerage in association with Putnam, the New York publishing house, and further guides to California and the Deep South are planned.

## Computer company goes for U.S. office market

BY RAYMOND SNODDY

A SMALL British company, Future Technology Systems (FTS), is making its first major entry into the international market this week.

It is going to the heart of the U.S. industry - the National Computer Conference at Anaheim, California, with its multi-function work stations and personal computers for the automated office.

FTS has designed a work station which handles data and word processing, telex, viewdata and communications for the OEM (own equipment manufacturer) market.

Managing director Mr Peter McHugh says of the California trip: "I hope to identify major OEM customers in the U.S. who realise that we have a product substantially in advance of most products emanating from that country."

Less than three years ago Mr McHugh, who has worked in merchant banking as well as the computer industry, was up to his neck in borrowings and a second mortgage as he took a prototype around the City of London seeking financial backing.

Now the company employs 120 people in Beith, near Glasgow, a total that will grow to 170 by the end of the year. Turnover this year, its first full year of operations, is expected to top £5m and a private placement of less than 20 per cent of its shares later this month is expected to value FTS at between £5m and £10m.

The company plans to seek a quotation either on the Unlisted Securities Market or the London Stock Exchange in 1985. "Our aim is to become the DEC of the office automation industry," says Mr McHugh in a rather grandiose reference to Digital Equipment Company, the dominant minicomputer group.

Nonetheless, FTS is, for Britain, an unusual example of collaboration between the academic and the business world.

One of the company's founders, and the research director, is Professor Martin Healey, professor of electronics and electrical engineering at Cardiff University.

Professor Healey and Mr McHugh met when they did consul-

tancy work for the same company. They saw there was a market for a work station which would eliminate the need for many separate pieces of office equipment and have a fast 16-bit microcomputer.

Professor Healey and his research students produced a prototype, and the collaboration with Cardiff continues. Design research is done by Professor Healey at the university and development work follows at Beith.

Mr McHugh and Professor Healey were joined by Mr David Shear, an expert in computer storage, and within months the company had raised £1m in return for 60 per cent of the equity.

The unlisted investment arm of Norwich Union, the Scottish Northern Investment Trust, and the Scottish Development Authority each hold 20 per cent. A recent benchmark test designed by Personal Computer World put the FTS personal computer ahead of the leading competition - machines produced by companies such as Olivetti, IBM and Apple.

## Output of steel cut by weeks of strike

STEEL production in Britain averaged 231,300 tonnes per week in April, 7.5 per cent lower than in March and 7.3 per cent lower than in April 1982. This setback breaks a three-month rising trend, but it was caused by a three-week strike at the British Steel Corporation (BSC) works in the Sheffield area.

Regional figures show March-to-April production increases in all major areas, except Yorkshire and Humberside, where the decline was 39 per cent to 75,400 tonnes per week, and Scotland, where production was only fractionally down to 38,800 tonnes per week.

Port pickets

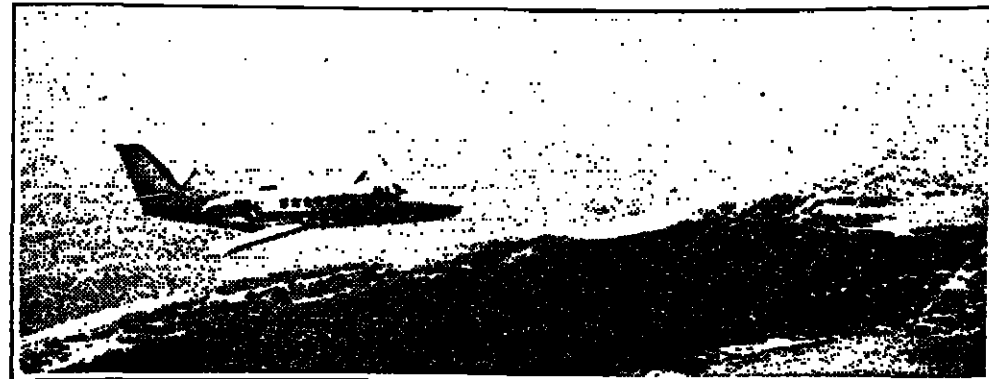
THE PORT of Dublin faces widespread disruption from today when striking dockers place pickets on entrances to the port area. Ferry services to Britain could be affected, depending on how many workers refuse to pass the pickets.

Ireland also faces widespread power cuts on Wednesday when electricity workers stage a one-day strike as part of a challenge to Government pay policy.

Paris 'Macs'

SCOTLAND's only traditional Mackintosh raincoat manufacturer has won orders for 2,000 coats from two top Paris fashion houses, Rummel and Khan and Hermes. The orders mean the Cumbernauld company, Traditional Weatherwear, will increase its staff by 25 per cent to meet the demand.

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## New technology without the redundancies

BY OUR LABOUR STAFF

MANY employers are agreeing to rule out compulsory redundancies when they introduce new technology but are refusing union demands for more pay and shorter working hours as the price for accepting it.

That emerges from an analysis of 54 technology agreements signed by white-collar unions in the public and private sectors, contained in a report to be published shortly by the Institute of Personnel Management (IPM).

The report finds that most agreements undertake to avoid compulsory redundancies and to retain and transfer existing staff to other jobs as they become available.

Provisions on health and safety featured prominently, with about half the agreements providing for the eye-testing of operators re-

quired to work with visual display units.

In more than two thirds of agreements, managements undertook to disclose information to unions in advance of any change in the type of equipment to be introduced, the skills needed and its likely impact on staffing.

Technology agreements have been highly controversial among managers since unions started pressing for them three years ago. Many are unwilling to negotiate technological change with unions or to accord it special status within existing procedures.

One recent report suggested that more than 200 agreements had been signed by mid-1982.

How To Introduce Technology: A Practical Guide For Managers, IPM, Camp Road, London, SW19 4UW. £3.95 plus 32p, from May 18.

## Union anger at Trident plan

Financial Times Reporter

THE DISCLOSURE that Rolls-Royce is tendering for sub-contract work on the Trident missile system looks set to provoke an angry response from trade unions.

Mr George McCormack, convenor of the Hillingdon plant in Scotland, said yesterday: "I am amazed that management have made no efforts to consult with us on what is clearly a controversial subject. We are totally opposed, without qualification."

## Motor trade accepts trial imports code

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

A CODE of practice intended to ease some of the problems created when cars are imported into Britain from other EEC countries has been "reluctantly" accepted by the Society of Motor Manufacturers and Traders (SMMT). The society will give it a trial run until the end of this year.

The code does not seem likely to open the way for a flood of unofficial car imports but it should eliminate a serious difficulty for fleet managers wanting to buy cars in other EEC countries.

Until now, a fleet buyer wishing to register any car in the UK has had to have a certificate stating that the vehicle meets British technical standards. Some official import companies and UK manufacturers had been reluctant to issue these documents.

The new code insists, however, that in future the certificates will be provided. The snag for the fleets is that the manufacturer or his importer might want to inspect the car to establish that it does meet British standards and, if changes are required, that might involve a substantial charge.

Any individual who buys a car on the European Continent and uses it there before bringing it to Britain for his own use has never been required to produce the technical standard certificate - called a submac certificate - as the vehicle is treated by the Transport Department as a "personal import". This does not change.

Only time will tell whether the code will enable unofficial wholesalers to make headway in the British car market.

## More cash to boost Doulton

Financial Times Reporter

ROYAL DOULTON, the Staffordshire pottery company which is part of the S. Pearson group, is to invest several million pounds in its 13 factories to stay in the forefront of world markets.

Mr Richard Bailey, chairman of Royal Doulton, announcing the company's plans, said: "The industry has been going through a difficult period in the last few years and we closed five factories, sold three and lost about 3,000 of our employees."

"As a result, we are now a slimmer and more efficient company and are able and prepared to respond to improving demand when it comes."

Royal Doulton's investment programme involves new machines, new technology and re-organisation in the factories.

"There will be changes in job practices and jobs, and some workers may have to move their place of work, but everyone will be fully consulted and I do not envisage any redundancies," said Mr Bailey.

The company was now recruiting and had taken on 100 workers.

## Sales of motorcycles continue to decline

BY JOHN GRIFFITHS

THE UK motorcycle trade, already rife with discounting, appears to be heading for a disastrous sales year. Registrations of powered two-wheelers in April were 25 per cent down on last year's, with no sign of the usual spring sales upturn.

Motor Cycle Association (MCA) statistics show 15,248 powered two-wheelers being registered in April, bringing the total for the year's first four months to 52,098. This is 17 per cent below the level of the corresponding period of 1982.

Even economical mopeds, for which the trade had been holding out high hopes in the wake of public transport problems, have suffered. Sales in the first four months were down 20 per cent at 18,119.

Scoters were the only sector to show any growth - 25 per cent. This, however, is on a very small base, and sales for the four months were still only 1,183.

Sales could well slip below the 200,000 mark compared with 235,000 last year, 275,000 in 1981 and 315,000 in 1980.

The MCA is putting some blame on the introduction in February of legislation limiting learner riders to 125cc machines and other measures aimed at reducing motorcycle accidents.

It also acknowledges, however, that recession and unemployment - particularly among the 16-24 age group - are primarily responsible for the downturn.

## Vehicle parts 'squeeze'

FINANCIAL TIMES REPORTER

VEHICLE MAKERS are taking advantage of over-capacity in the components industry to coerce suppliers into contracts at unrealistically low prices. The Receiver for a failed West Midlands company has claimed.

Mr Roger Dickens, of accountants Peat, Marwick Mitchell, says

in the latest edition of The Engineer that the vehicle makers have used their position of being in a buyer's market to "screw all suppliers down" to uneconomic prices.

Mr Dickens, recently-appointed receiver and manager of Youngs Engineering, a Stratford-upon-Avon pressings supplier, says the situation applies to manufacturers other than BL, despite the fact that BL's warnings that it would seek a substantially higher proportion of components from overseas if UK component makers could not compete more effectively received the most prominent publicity.

If UK-based manufacturers did not take a greater responsibility towards the UK components industry, "a lot of suppliers will fail," Mr Dickens said.

## Recovery 'could soon end'

By Jeremy Stone

THE RECOVERY in UK economic activity may already have been going on for so long that it is in danger of peaking out. This is Mr Roger Nightingale's view in Economic Outlook, published by stockbrokers Hoare Govett.

Mr Nightingale agrees with the official cyclical indications that the trough was reached about two years ago, inferring that the top of the current cycle, on past form, could be fairly near.

This conflicts with a more widely accepted view that activity has only recently started to recover.

Mr Nightingale thinks some of the statistics used to paint the gloomy recession picture are misleading. Published unemployment, he argues, greatly overstates the weakness of the labour market. Vacancies have been rising for 18 months and are 50 per cent above their low point, while real wages have continued to rise, confirming the message that demand for labour has been slowly improving for more than a year.

As the same time, most of the reported recession since 1979 has to be accounted for by the running down of stocks.

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## UK NEWS

# Polls give Tories nearly 16% lead

BY PETER RIDDELL, POLITICAL EDITOR

THE CONSERVATIVES start the 1983 general election campaign with a larger lead over Labour, the main opposition party, than at the beginning of the 1979 campaign.

Despite its recent setback, the Social Democrat/Liberal Alliance also starts the campaign with a higher standing than the Liberals did on their own in 1979. (The Social Democratic Party was not formed at that time.)

The accompanying table lists all the nationwide opinion polls published between this year's local elections on May 5 and yesterday. For comparison, a poll from mid-April is also included.

the time - the average Tory lead was then 9.7 per cent.

On voting day in 1979, the Conservative lead over Labour was just over 7 per cent. The Conservatives won 306 seats, Labour 203 and the Liberals seven. (Elections are won by the candidate with the largest number of votes cast, and are not based on proportional representation.)

The Alliance is also in a stronger position now than the Liberals four years ago - with a share of 15 to 21 per cent according to last week's surveys. This compares with a Liberal position at the start of the 1979 campaign of between 5 and 10 per cent, and a final share of the vote of just over 14 per cent.

The polls are generally from representative quota samples weighted, for instance, for age, sex and occupation. They are based on face-to-face interviews in about 100 of the 650 parliamentary constituencies.

The table excludes those people saying they do not know how they will vote, will not say or say they do not intend to vote. Only some of the polls give this information.

For instance, the Marplan survey published in the Guardian newspaper shows that out of a sample of 1,487 electors at the beginning of last week, 13 per cent were not known, won't vote or won't say. This compares with 16 per cent in this category in March and 21 per cent in January.

The decline since then is almost entirely attributable to a drop in don't knows, from 11 to 4 per cent of

### OPINION POLL RESULTS

Interview date	Poll	Sample size	Cons	Lab	Alliance	Others	Don't know
Apr 11/12	Marplan (Guardian)	1,500	43	32	23	2	11
May 5/6	Marplan (Observer)	1,023	46	30	23	1	10
5	BOF (Mail on Sunday)	1,000	47	34	18	1	10
6	Marl (Financial Times)	1,000	45	34	20	1	11
6/7	Gallup (Daily Telegraph)	871	49	31%	17%	2	17%
10	Marl (Daily Star)	1,047	48	31	21	1	12
10/11	Marplan (Observer)	1,057	46	34	18	1	12
11	Marplan (TV News)	1,048	32	31	17	0	21
12	Marl (Daily Express)	984	48	34	15	2	15
1979	general election		45	38	14(16)	3	7
1983	local elections England and Wales		41	35	23	1	0

those interviewed, benefiting Conservative and Labour.

The surveys in the table cover only voting intentions although polls also ask about attitudes to leaders and issues. For example, a Gallup survey in yesterday's Sunday Telegraph showed that, of the main party leaders, Mr David Steel of the Liberals had made the most favourable impact on television last week, and Mr Michael Foot of Labour, the least.

There are also surveys of specific seats and regions. For example,

yesterday's Weekend World programme on London Weekend Television included a Harris Research Centre survey of 48 Tory/Labour marginals. Based on a sample of 871 voters, this gave the Conservatives 45 per cent, Labour 39 per cent and the Alliance 15 per cent.

A separate survey, based on samples of 500 voters, shows that - both in seats which the Liberals held or came second in 1979 and in SDP prospects - the Alliance's chances of gaining seats are poor.

## Cabinet reshuffle speculation grows

BY OUR POLITICAL EDITOR

BARELY has the election campaign started, than speculation has begun about ministerial changes if the Conservatives win. Much of this is merely politicians' gossip, but some is also deliberate propaganda aimed at promoting the chances of one candidate and damaging another.

The Sunday papers yesterday were full of stories about Mr Francis Pym, the Foreign Secretary, being a strong runner to take over from Mr George Thomas, who retired as Speaker with the dissolution of Parliament on Friday. The Speaker presides over the House of Commons.

Mr Pym's name was first mentioned about six weeks ago and the speculation both then and now has all the hallmarks of the party zealots in Downing Street and Conservative Central Office.

The more enthusiastic Thatcherites make no secret of their criticism of Mr Pym's performance - too gloomy and too much the Foreign Office man they say - and the Speakership is seen as an honourable way out for him. Mr Pym himself has dismissed the talk. He still believes he has a major role to play.

If Mr Pym does leave the Foreign Office, Sir Geoffrey Howe, the Chancellor, is his most obvious successor if the Tories win. Sir Geoffrey is spending an increasing amount of time on international questions, as chairman of the International Monetary Fund interim committee of finance ministers. He also has strong views on the EEC Budget, which is bound to preoccupy any Foreign Secretary after the election.

Who then is the likely Chancellor? The favourites are Mr Patrick Jenkin, the Industry Secretary, and Mr Nigel Lawson, the



Mr Francis Pym

Energy Secretary, with Mr Cecil Parkinson, the chairman of the Conservative Party, as a long shot.

The extent of any reshuffle will depend on what happens to Mr William Whitelaw, the Home Secretary, who has become a "hate" figure for the zealots but has been central to the balance of the Government.

On one view, a major reshuffle involving Mr Whitelaw may be postponed for a year. This would incidentally allow time for Mr Norman Tebbit, the Employment Secretary, to complete the promised big Employment Bill, despite his ambitions to move to the Home Office.

Any post-election changes are also likely to include Sir Keith Joseph, the Education Secretary, and the much criticised Mr David Howell, the Transport Secretary.

## Labour activists call for election unity

BY PHILIP BASSETT

LABOUR Party constitutional activists, whose efforts at party reform were instrumental in highlighting the party's internal divisions, are now urging unity around its existing policies, leadership and procedures because of the general election.

The party's two main constitutional groups, the Campaign for Labour Party Democracy (CLPD) and the Labour Co-ordinating Committee, have joined together to produce this "joint initiative" unity, even though they acknowledge that it is "clearly unacceptable" to the extremes at both ends of the party's political spectrum.

A CLPD document on the initiative, which is being circulated to affiliated trade unions, says: "We believe that the vast majority of active

Labour and trade union members think it is more important at this juncture to win a Labour government than to pursue internal battles."

It says that the acceptance of the existing leaders, candidates and selection procedures "is the only workable basis for a ceasefire in the face of the common enemy."

The document recognises that with the election being called in June, "we shall just have to manage as best we can."

However, it still stresses that the need for unity is strong - if Labour wins, unity to keep it in power and to ensure that its policies are carried out, and if it loses, "to resist the temptation to form a coalition government."

## Party official blames U.S. over arms race

BY OUR LABOUR CORRESPONDENT

CLEAR responsibility for the intensification of the arms race was for the first time placed on the U.S. by a senior Labour Party figure yesterday.

Mr Jim Mortimer, Labour Party general secretary, said it was the U.S. Congress, led by Mr (now President) Ronald Reagan, which rejected the last U.S.-Soviet arms limitation deal worked out in the Salt 2 talks.

Mr Mortimer said at the annual conference of the National Union of Public Employees (Nupe): "The initiative for this latest round in the arms race comes primarily from the U.S. and we should recognise that."

This explicit blaming of Britain's U.S. allies is likely to be seized by the Conservatives as an indication that support for the unilateralist

nuclear policy held by Labour is a pro-Soviet position.

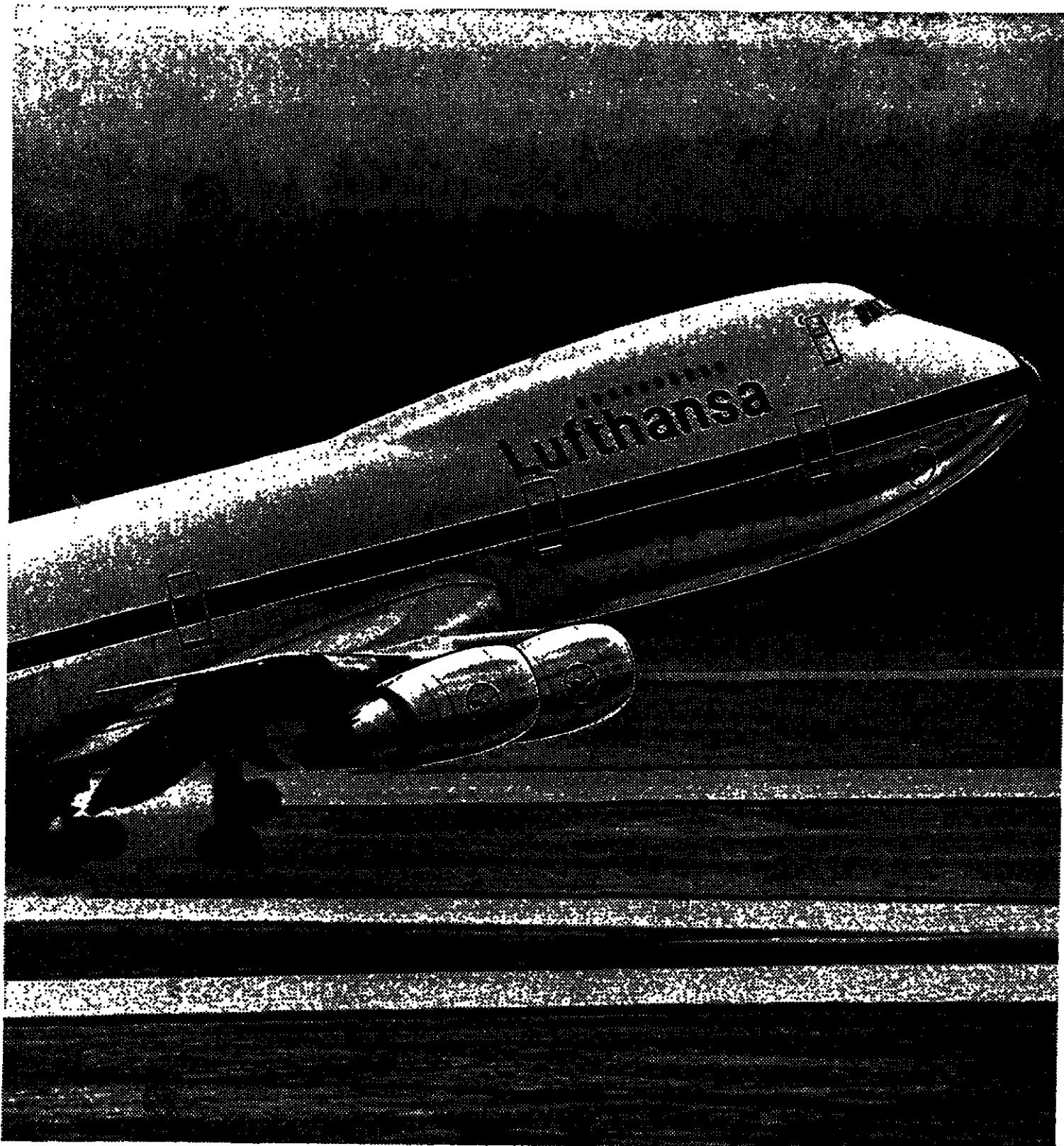
Mr Mortimer listed Labour's main issues for the election: unemployment, the social services, the EEC, the nuclear issue and trade unions.

On Nupe's own principal policy against low pay, he said the measures taken to shore up low pay by the Conservatives gave tens of thousands of Nupe members the reason to ensure that there was a return of a Labour government.

Nupe's conference was the first union electoral platform for Labour since the general election was announced. Delegates gave overwhelming approval to a statement which called on the union's 700,000 members to work for Labour's return. It accused the Conservatives of being unfit to govern.

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## FT COMMERCIAL LAW REPORTS

## Shell not 'proper party' to gas leak action in UK

QATAR GENERAL PETROLEUM CORPORATION v SHELL INTERNATIONAL PETROLEUM CORPORATION (QGPC) v SHELL INTERNATIONAL PETROLEUM CORPORATION (SHELL) (The Court of Appeal (Lord Justice Ackner and Lord Justice Dillon): May 5 1983).

WHERE A person has claims against two separate parties, with one of whom he has an arbitration agreement, he cannot join that one as a defendant in an action against the other except in respect of issues outside the scope of the arbitration and common to both claims, and accordingly, if no such issues would remain after the arbitration, the party to arbitration is not a "proper party" to the action and leave will not be granted to serve proceedings on him out of the jurisdiction.

The Court of Appeal so held when dismissing an appeal by Qatar General Petroleum Corporation ("QGPC") from Mr Justice Mustill's decision setting aside orders by which QGPC had been given leave to serve a writ out of the jurisdiction on Shell Internationale Petroleum Maatschappij NV.

Order 11 of rule 3 of the Rules of the Supreme Court provides: "(1) ... service of a writ out of the jurisdiction is permissible with the leave of the court ... (2) if ... a person out of the jurisdiction is a necessary or proper party [to the action]."

LORD JUSTICE ACKNER said that Qatar Petroleum Company Ltd ("QPC") held gas concessions from the state of Qatar.

In February 1972, QPC entered into an agreement with Whesoo Ltd for the supply and erection of a natural gas plant at Umm Said.

In March 1972 and February 1973 respectively, QPC and Shell entered into two agreements, a "construction service agreement" and an "operating service agreement", under which Shell was to provide planning and supervisory services in connection with the plant.

Both agreements were governed by Netherlands law and provided for arbitration. The plant was constructed and entered into service. It included a propane storage tank. In April 1976, as a result of a failure in the tank, propane escaped. The expense of repairs and product loss was said to amount to \$3,262,140.

Shell investigated the cause of failure and gave certain advice. By the end of 1976 the tank had been repaired and was back in service.

In April 1977 the tank failed again. There was a terrible disaster involving total destruction of the plant and considerable loss of life. The losses were said to amount to \$333,244,447.

On February 26 1980, Qatar General Petroleum Corporation ("QGPC"), a public corporation incorporated under the laws of Qatar, issued a writ in the Commercial Court, claiming damages against Whesoo and Shell.

The basis of the claim was that the benefits of the two Shell agreements had been assigned to it by QPC and that the failure of the tank resulted from Shell's breach of those agreements and/or negligence.

The writ also contained an allegation of breach of contract and negligence against Whesoo. Shell refused to accept service of the writ. The matter was referred to arbitration.

QGPC obtained leave to issue and serve notice of the writ on Shell out of the jurisdiction. Mr Justice Mustill set aside the orders. He decided that the court had jurisdiction under RSC Order 11 rule 1(1)(j) to make the orders, but should not exercise its discretion in that the claims lay within the arbitration agreements.

Later QGPC served a revised statement of its case which substantially recast QGPC's case. It raised claims unconnected with the two Shell agreements and contained allegations based on tort.

In that new scenario, which was considered by Mr Justice Mustill, the court had to consider whether the case came within Order 11 rule 1(1)(j), and if so, whether to exercise its discretion and allow service out of the jurisdiction.

Whether a person out of the jurisdiction was a "proper party" to an action against a person served within the jurisdiction depended on whether, had they both been within the jurisdiction, they would have been joined together in one action where, if separate actions were brought by or against them, some common question of law or fact would arise in all the actions.

The issues of fact between QGPC and Shell, had been committed by agreement to the exclusive jurisdiction of the arbitrators. Excluding such issues from the English proceedings, only potential issues of law were left.

There was no issue of law common to Whesoo and Shell. The case therefore did not fall within the Order.

It was not a proper case for the exercise of the court's discretion. The parties clearly contemplated finality being achieved by arbitration. The claims were not connected with England. English law was irrelevant. The duplication and division of effort if Shell were joined as party to the English proceedings, would place a heavy burden on Shell's advisers without any countervailing advantages.

The appeal should be dismissed.

LORD JUSTICE DILLON agreeing, said that QGPC's revised claims were essentially claims founded in tort on the footing that Shell owed a duty of care to QGPC as owners of the plant, before QGPC ever succeeded to QPC's contractual rights under the two agreements. It was claimed also that Shell acted in breach of that duty, before QGPC had succeeded to those rights.

QGPC asserted that the revised claims were independent of the two agreements and outside the arbitration. Shell asserted to the contrary.

The question whether the revised claims were within the scope of the arbitration was a question of law of the Netherlands, since the agreements were exclusively governed by Netherlands law.

There was no evidence of Netherlands law before the court. Accordingly, the only practical way for the English Court to decide the question would be by directing it to be tried as a preliminary issue by a judge at first instance. That, however, could only be done if the court assumed jurisdiction under Order 11.

QGPC had to satisfy the court that Shell was a proper party to the action and that the case was a proper one for the court in its discretion to give leave for service on Shell.

The court's caution in exercising such discretion arose not merely from a belief that a foreigner would be faced with extra trouble and expense if forced to litigate in the UK, but also from the view that the extension of its jurisdiction was *pro tanto* an invasion of the sovereignty of the foreign state where the proposed defendant resided and owed allegiance.

Even if QGPC had claims which were outside the scope of the arbitration, those claims involved to a very large extent the same facts as would be in issue in the pending arbitration.

It was overwhelmingly probable that the arbitration would come on for effective hearing well before the action was ready for trial if Shell was joined in the action against Whesoo in England.

It was probable therefore that the arbitrators would have made their findings of fact as to the causes of the accidents, as to Shell's acts and omissions, and as to damages, before the action came on for trial.

The trial would then not be concerned with issues of fact and law common to QGPC's claims against Shell and Whesoo, but with questions between QGPC and Shell, which were no concern of Whesoo.

The introduction of Shell as defendant would involve undesirable extra complication and delay, and would be outside the spirit of Order 11.

There was nothing in Mr Justice Mustill's judgment to suggest that he would have thought otherwise had the present situation been before him.

The proper place for QGPC to sue Shell was in Holland or, if Shell had a presence there, in Qatar. Shell could only be sued in England if it were appropriate to allow it to be joined in the action against Whesoo.

As a matter of discretion leave would not be given. For QGPC: Anthony Evans, QC, and Michael Horsey, QC (Herbert Smith & Co.). For Shell: Mark Littman, QC and Marion Smith (Marriott Harrison & Co.).

By Rachel Davies  
Barrister

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## ADVERTISEMENT

## COMMUNICATIONS IN BUSINESS AND SOCIETY

HITACHI: Research  
for a Brighter Society

By Geoffrey Murray

Hitachi began operations in 1910 as an electrical repair shop with about 300 employees. Today, it ranks among the top 50 industrial corporations in the world, with a range of over 20,000 products. To achieve this, Hitachi has always followed the philosophy of its founder, Namihei Odaira, an engineer. He believed strongly Japan should strive for self-reliance in industrial technology. To achieve this, he stressed, there should be a strong management commitment to education and a constant quest for new, improved products.

Murray: How would you describe Hitachi's commitment to research and development today?

Arai: We have never stopped expanding. In the parent company, Hitachi Ltd, we are currently reinvesting an average 6.5 per cent of annual sales in R and D. Expenditure has grown from under 40 billion yen to well over 125 billion yen over the past decade. Some 9,000 of our workers, about one in eight, is actively involved in this programme. Among these people we have 600 who hold doctorate degrees, which I think is the largest among Japanese companies.

## Global cooperation in R and D

Murray: To many people overseas, the Japanese present an image of copiers and improvers of others' technology. What is your reaction?

Arai: Even if we wanted to copy technology, the countries concerned wouldn't sell to us unless we had something substantial to offer in return through, say, a cross-licensing agreement. But technical research and development have now become so diverse and complex that it is no longer possible for any firm in any country to be entirely independent. Something has to be done to coordinate these efforts more effectively and eliminate duplication of work and investment. In 1970 we made an across-the-board offer to license any of our patents to any other firm, whether Japanese or foreign, under reasonable licensing conditions. This is now working out well for everyone, bringing immense benefits to the public.

Murray: Do you currently export more technology than you import?

Arai: The situation at present is a ratio of 8 to 10 in our patent fee receipts and our payments to other companies. But this is much better than a decade ago, when it was 1 to 10. We expect to achieve a balance within a few years.

Murray: Where is the main thrust of your R and D directed now?

Arai: Two areas—energy and electronics; we are convinced these offer the greatest possibilities of long-term growth. The first area breaks down into new energy sources and energy conservation. We are working on improving the safety and economy of existing nuclear facilities while working on developing the next generation of fast breeder and fusion reactors. We have ongoing programmes in solar power generation, coal liquefaction and gasification, for example. And we have engineering teams working hard on making energy use more efficient to encourage conservation. In electronics, I think we have made great strides in semi-conductors. This is being reflected now in the growing range of sophisticated personal computers, word processors, video equipment and robots, for example. This effort is being backed up by large-scale investment of



time and money in creation of new materials. There are many exciting areas that we believe will contribute to the "information-oriented society" now developing. This includes a home information system combining a television receiver, microcomputer, telephone and printer which will revolutionize home life. The list is really endless.

## Commitment to education

Murray: A successful R and D programme naturally means well-educated workers. What sort of training do you provide your people at various levels?

Arai: We have two technical colleges which take in more than 200 high school graduates a year and offer them an educational standard equivalent to a four-year university course. There are continuous basic-level courses on the factory floor, with a lot of on-the-job training that benefits not only the young trainee but also his seniors who are encouraged to set a good example in skill. Later on, there are advanced courses for middle and senior managers, conducted by the Hitachi Institute of Management Development. Actually there are three different "campuses" in and around Tokyo, offering different types of courses continually throughout the year. They can handle about 1,600 students a year. Actually, no one, even senior management, ever stops learning, because the business climate and methods of doing business are constantly changing. Engineers have their own Institute of Technology in Tokyo, which can handle about 700 students a year. We also have about 60 men who are designated as "Kohshi," a title awarded only to those with the highest skill and exemplary character. Like the old Japanese masters of traditional crafts, these men play a very important role in training and developing the people under them who must maintain the highest standards of quality for our products in the years ahead. We also have a sales training school, which, at the advanced stage, involves a 17-month intense course ending with the preparation of a treatise on a specialized subject.

Murray: Hitachi is a very international company, so how is this aspect reflected in your training programmes?

Arai: We want as many as possible of our workers to be proficient in at least one foreign language. We now have two language institutes, and there are courses in English, French, German, Spanish and Chinese. We send quite a few promising people overseas to study at universities or for on-the-job training to broaden their outlook and experience. By the same token, we bring the local

managers of our overseas subsidiaries and affiliates to Japan to get better acquainted with Hitachi's business philosophy.

Murray: Hitachi is now a giant company with widely diversified operations. How do you maintain good communications between your various manufacturing and sales activities? Especially, how do you make the individual feel he is not simply a very tiny cog in a large wheel that goes virtually unnoticed?

Arai: Our basic philosophy is not to concentrate authority in one spot but to delegate a considerable amount of responsibility to each of our 14 operational divisions. Between those divisions there is a certain amount of movement at the managerial level. Engineers generally stay put, but managers will move around to gain wider experience of the company operation. At all levels, there are frequent meetings to discuss problems and exchange ideas to promote good communications both horizontally and vertically within the company. On the shop floor, we long ago began promoting the idea of small group activities, such as the Quality Control (QC) circles which you hear so much about these days. Especially with factory and office automation now, there is a real need for company staff to form small, highly efficient teams, each member complementing the activities of another like a soccer team, for example. We have found that this method is highly successful in generating an upward flow of ideas from the young staff members and those closest to the operational front line. Let me try and illustrate this success. An independent survey was conducted of various Japanese corporations and it found that employees of the parent Hitachi company made an amazing 4.2 million suggestions to the management during 1980 alone. That worked out at an average 74.8 suggestions per employee. Hitachi was top also in 1979. And the scale and quality of our employees' creative activities is, I think, the main reason why the company has for three consecutive years led all Japanese companies in the number of Award for Innovative Efforts received from the Science and Technology Agency.

## Creating a local company

Murray: I think this must partly stem from the fact that the average Japanese worker identifies his life very closely with that of his company. Do you expect that same attitude in your overseas operations?

Arai: Well, we would certainly like our overseas employees to identify with the company. But we cannot expect from foreign workers exactly what we expect from our Japanese staff, because the people of other countries have different backgrounds and concepts that must be respected. If we really tried to force our ideas on them we would encourage statements like: "Japanese enterprises are egotistical," etc. We now have factories in 15 countries and sales companies in 36. They employ roughly 25,000 local people. Our first priority is always to contribute to the local society and create an operation that is essentially a local company. The number of Japanese personnel is kept as small as possible. In operations that are functioning smoothly, this might involve only a Japanese president and a head accountant. If the operation is not yet fully developed, there might be as many as 20 Japanese, but they will be withdrawn as soon as possible. What we want to do is to develop a company that will be accepted by the local workers, respecting local customs but adding the good points of Japanese management philosophy.

Murray: By this do you mean the familial type of management that seems to operate well in most Japanese companies?

Arai: Exactly. For instance, we took over a casting foundry in the United States from an American company. We introduced a family-type management system which proved to be highly successful in motivating the work force. I think in countries like Britain, for example, there are not that many opportunities for workers and the executives right up to president to mix in the same shop and enjoy good communications. In Japan, a manager would be a constant visitor to the workshop, stopping to have conversations with individual workers. He would act as a kind of counsellor, offering advice about bad work, but also listening to problems and taking action immediately. In our company, we always try to have parties and other social occasions, as well as establishing a single cafeteria within a factory where management and workers freely mix. I think this has been the most outstanding feature of postwar Japan ... that there are no social barriers and everyone is regarded as equal. I don't think there is any worker feeling of "us" against "them" that seems to exist in some western factories. This, I believe, is one aspect of Japanese management that can be exported successfully.



Profile of Hitachi Europe Ltd.  
Akira Kozumi, Managing Director  
Hitachi Europe Ltd.

Hitachi Europe Ltd. was established as a new U.K. subsidiary in June 1982, to reinforce sales operations in Europe and North Africa by consolidating the previous functions of offices in London, Düsseldorf and Vienna. In a further strengthening move, Hitachi Europe GmbH has been made a subsidiary of the new company and will work closely with it to develop new customers and give better service to existing ones. Sales and technical support services will cover a wide range of products, including power generation equipment, heavy electrical machinery, chemical plant equipment, automotive parts, air conditioners, computers, communications equipment, office automation equipment and industrial robots. The aim is to provide high technology products and cooperate with other local enterprises in such areas as technical exchange and investment. It is Hitachi's aim to become a truly European enterprise by actively recruiting local personnel. As a new company with limited operations so far, the number of Japanese personnel is still high. But our plans call for almost no increase in this number, while local recruitment will be stepped up over the next few years.



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Tokyo Pacific Holdings (Seaboard) N.V.

The Quarterly Report as of 31st March 1983 has been published and may be obtained from:

Pierson, Holding & Pierson N.V.  
Herengracht 214, 1016 BS Amsterdam

Sat. Oppenheim & Co.  
Unter Sachsenhausen 4, 5 Köln

National Westminster Bank Limited  
Stock Office Services,  
30, Old Broad Street,  
London EC2N 1EJ

Trinkaus & Burkhhardt  
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D 4000, Düsseldorf 1

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21 Rue Laffitte, Paris 9

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Ebic banks, offer specialised services throughout the world.

In the States, there's European American Bancorp (EAB) with subsidiaries in New York and their affiliates and branches in Bermuda, Cayman Islands, Chicago, Los Angeles, Luxembourg, Miami, Nassau (Bahamas) and San Francisco.

Then there's the European Asian Bank (Eurasbank). Headquartered in Hamburg, it has branches in Bangkok, Bombay, Colombo, Hong Kong, Jakarta, Karachi, Kuala Lumpur, Manila, Seoul, Singapore and Taipei.

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## THE WEEK IN THE COURTS

### Question of double criminality

THERE ARE occasions, fortunately rare, when courts startingly disabuse a whole generation of lawyers about an aspect of the law they have fondly held to be clear and certain.

One such incidence occurred, almost unnoticed by the media, when Lord Justice Robert Goff and Mr Justice Mann decided last Thursday that the Chief Metropolitan Magistrate had wrongly declined to commit a Danish businessman to prison to await his extradition to Denmark to be tried for criminal breach of trust. The court said the magistrate should not have analysed the Danish crime the man was charged with and then gone on to see whether the evidence disclosed a substantially similar English offence. The magistrate should have considered only whether the conduct complained of came within the Extradition Act and the Anglo-Danish extradition treaty.

It is a traditional and universally-accepted principle of extradition that fugitives from justice should be surrendered for trial only for those acts which are not only offences against the law of the requesting country but which, if committed within the jurisdiction of the requested country where the fugitive is found, would also constitute offences against its own law. This is known as the double criminality rule.

Its justification is the principle that the fugitive should be treated in the same way as any other person within the jurisdiction of the requested country, and should not be detained or proceeded against there for acts which do not contravene its law. The replication of the law of the requested country by that of the requesting country is founded on the concept of extradition as a form of mutual assistance in bringing offenders to justice in the criminal courts.

However, there has always been a problem in determining whether the fugitive's acts, in order to be extraditable, must be punishable in the requested country under the same name as it is punishable by the laws of the requesting country or whether it is sufficient that the facts adduced in support of the claim for extradition, while not constituting the named crime by the law of the requesting country, constitute a crime by another name under the law of the requested country.

Some courts and lawyers have, in the past, propagated the view that the act constituting a named crime under its definition in the requesting country must constitute the named crime under the definition in the requested country. If that statement were generally true, extradition would be labouring under an appalling handicap. Many acts constitute offences under the law of both countries but would be differently designated.

What constitutes, for example, obtaining property by deception in one country might be the abuse of confidence in another. Again, the same act might be theft in one country and embezzlement in another. If the offence disclosed does not have to be identical either in its description or in its constituent elements, in the two countries, courts have at least so far held that the corresponding offences should be substantially similar.

An example of how this works in practice was provided in a case three years ago. Members of the Church of Scientology entered various Government offices (in particular, the Internal Revenue Service) in Washington DC and photocopied there confidential material relating to the Church and its adherents.

Entry had been gained by the use of obtaining official passes required for entry in Government buildings. The entrants had acted upon the

direct instructions of two senior officials of the Church who worked at the International Headquarters at East Grinstead. These two were the subject of a requisition for their surrender to the U.S. on charges of burglary.

The material placed before the English courts did not allege entry by the burglars as trespassers. By English law an essential element of the crime of burglary is that the defendant entered as a trespasser. The High Court, in rejecting the plea that the burglary offences were dissimilar, held that an accused person always had the protection that he could only be extradited for a crime that is substantially similar in concept in both countries. The absence of the requirement of trespass in American law was insufficient to take the case out of the category of a substantially similar offence. Both offences were burglary.

The recent decision throws overboard the substantially similar test. The reasoning is that the only question for the courts is whether the act constituting the offence charged would, if committed in the requested country, constitute an offence (not necessarily the offence charged) by the law of that country and made admissible in the treaty between the two countries.

Hence if a country requests the return of a fugitive on a crime of murder and then produces evidence to the courts of the requested country that establishes a prima facie case of theft, the courts of the requested country will be bound to order extradition because both murder and theft are extraditable.

The protection against that happening is said to lie with the Home Secretary who has a discretion not to surrender a fugitive even though the courts have held that he is extraditable. This can hardly be satisfactory, since the Home Secretary's discretion is exercised sparingly in favour of non-surrender, and then only for some political reason relevant to the particular requesting country. It has always been intended that the courts should be the primary arbiters of who is surrendered to a foreign country in accordance with the particular treaty between the two countries.

It had become increasingly apparent in recent years that the law of extradition has become inadequate in many respects. That is hardly surprising, since it is based on a statute of 1870, subject to occasional updating by the adding of modern extradition crimes connected with drug smuggling and terrorism. While the basic thinking behind the various extradition treaties has changed little, the times in which those treaties are now expected to operate are radically different.

An interdepartmental working party issued a report last July on the law and practice of extradition in the UK. One thing stands out in the report which involves 22 conclusions and recommendations. The working party was not dissatisfied with the law as it then stood on the doctrine of double criminality.

Last week's High Court ruling thus introduces such a distortion of the law of extradition as to call for review by the House of Lords in its judicial capacity. As the working party's recommendations within the Home Office is needed, aimed at updating the law that seeks to assist the international community in dealing with serious crime that knows no national boundaries, and indeed with criminals who exploit those state boundaries to their own nefarious ends.

\*R v Chief Metropolitan Magistrate, ex parte the Government of the Republic of the Philippines, May 13, 1983, p.7.  
\*R v Governor of Pentonville Prison, ex parte Dudley (1980) 1 WLR 1110.

Justinian

### Camoy's queries figures for TV-am audiences

BY ALAN FRIEDMAN, BANKING CORRESPONDENT

TV-AM's audience is well above the current estimate of 200,000 viewers and possibly double or treble this figure, Lord Camoy, managing director of Barclays Merchant Bank, has claimed. The bank, with £1.2m of equity and subordinated loan capital in the venture, has an investment stake of just under 10 per cent.

Lord Camoy, discussing the TV-am venture in detail for the first time on Friday, claimed that the way the audience was measured was inaccurate. "In the morning, you switch it on and off quite a lot — like the wireless. They say the figure is 200,000. I think it is well above that," he said. He admitted that he regarded the TV-am investment as a "high risk" and claimed the main problem involved programming.

"It was quite obvious we got into the programming wrong. It has been proved that there is a market for morning TV. The question is how can we get the audience," he explained. The goal now was to improve

the programming and return to TV-am's initial target by March 1984. Lord Camoy said TV-am could be "worked to success" by changing the programming. "In addition, the £1.2m equity stake, Barclays Merchant Bank is believed to have extended about 5m more in bank loans.

Lord Camoy said TV-am could be "worked to success" by changing the programming. "In addition, the £1.2m equity stake, Barclays Merchant Bank is believed to have extended about 5m more in bank loans.

## CONTRACTS AND TENDERS

### YEMEN ARAB REPUBLIC Yemen General Electricity Corporation THIRD POWER PROJECT Management Consulting Services

The Yemen Arab Republic (YAR) has applied for a credit from the International Development Association (IDA) in various currencies equivalent to US\$18 million towards the cost of the third power project which inter alia, includes the following:

1. Management Consulting Services to develop and to assist the Yemen General Electricity Corporation (YGECC) in implementing a comprehensive "financial recovery plan" to improve YGECC's organisation, management, staffing and financial operations.
2. Consulting Services to assist YGECC to develop and to implement a program to computerise its accounting and billing operations.
3. Consulting Services to assist YGECC in construction supervision of electrical project facilities consisting of:
  - a) 930 KM of medium and low voltage lines
  - b) 33 substations for a total capacity of 90 MVA
  - c) 300 distribution transformers for a total capacity of 14 MVA
  - d) 15,500 metres and boards, and
  - e) 1,300 street lights

Consulting Firms who have successfully implemented similar assignments in developing nations are invited to express their interests to: Office Of The Chairman, Yemen General Electricity Corporation, Post Office Box 178, Sana'a, Yemen Arab Republic.

### ELECTRICITY SUPPLY COMMISSION - ZIMBABWE WANKIE POWER STATION STAGE 2

In connection with Stage 2 of Wankie Power Station invitations to Tender will shortly be issued as follows:-  
Contract 2C1A for extension of the Ash Dam comprising earthworks, pipelaying and roadworks. Tender documents will be issued early October, 1983 and the date for contract completion is March 1985.  
Contract 2C1B for the supply, delivered project site, of approximately 9km of cast basalt lined steel pipework. Tender documents will be issued in early July, 1983 and the date for delivery is 1 June, 1984.  
Contract 2M10 for painting of Stage 2 plant, tanks, pipework, supporting steelwork, etc. including supply of all painting materials and equipment. Tender documents will be issued in early July, 1983 and contract completion will be required early 1986.  
Firms interested in tendering for 2C1A and 2C1B should apply in writing to Watermeyer, Leggo, Plesold and Uhlmann, Karibuck House, Station Road, Ashford, Kent, TN23 1PP, England (TLX 965436) and for 2M10 to Mierz and McCall, Amberley, Killingworth, Newcastle upon Tyne, NE12 0RS, England (TLX 53561).  
In each case a copy of the application with a deposit of 500 Zimbabwe Dollars in respect of each tender applied for should be forwarded to the Secretary and Legal Adviser, Electricity Supply Commission, Electricity Centre, Samora Machel Avenue, Harare, Zimbabwe.  
These contracts will be subject to a loan agreement between the Commission and IBRD. Tenders will only be considered from firms who submit with their tenders evidence that they are eligible under World Bank rules and that they have the necessary experience and competence in all aspects of the contract.  
In the case of 2M10 the prices offered for materials which can be manufactured in Zimbabwe in accordance with the specification will be evaluated for domestic preference in accordance with annex 2 of the guidelines for procurement under World Bank loans.

### Tender for the supply of workshop machines, vehicle maintenance equipment & welding equipment

The Crown Agents will shortly be calling for world wide tenders on behalf of the Jamaican National Development Agency for the supply of Workshop Machines, Vehicle Maintenance equipment and Welding equipment for use in Vocational Training and Development Institutes and Industrial Production Centres. The project is being funded by the World Bank.

Tender documents will be returnable to the Crown Agents in London where they will be opened publicly on a date to be advised.

Should you wish to receive a set of tender documents at £10 per set, please apply in writing to:  
The Crown Agents,  
4 Millbank, Westminster,  
London SW1P 3JD, England  
enclosing a cheque for £10 and quoting reference BC7D/JAMIBRD2/058707.

### COMPETITION FOR THE DESIGN OF ARMED FORCES OFFICERS' CLUB ABU DHABI

The General Headquarters of the United Arab Emirates Armed Forces invites consultant architects, local and international, to participate in a competition to DESIGN AN OFFICERS' CLUB COMPLEX IN ABU DHABI. All consultant architects have the right to submit more than one design not later than 2nd August 1983.

Competition documents are now available from:  
U.A.E. EMBASSY  
MILITARY DEPARTMENT  
48 PRINCES GATE  
LONDON SW7  
Tel: 01-581 4113

### INTERNATIONAL BIDDING

Under the terms of the World Bank loans, the Port of Bar Working Organisation (PBWO), Bar, Yugoslavia, invites bids for manufacture and delivery of:  
—One caterpillar bulldozer of power over 220 KW/300 HP, for use in cargo pushing and trimming, and  
—One shovel loader on wheels, of power over 220 KW/300 HP, for use with loading of cargoes.

The final date for delivery of bulldozers in Bar is December 1, 1983.  
Interested Bidders may obtain the bidding documents from PBWO at \$5000 Bar, free of any charge.  
The closing date for submission is 10.00 hours on June 15, 1983. Public opening of bids will take place on the same date at 11.00 hours at PBWO's office.  
Bidders only from the IBRD member countries, Switzerland and Taiwan are invited to participate in this bidding.

### COMPANY NOTICE GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the Corporation's Declaration of a Dividend of \$0.60 (gross) per share of the Common Stock of the Corporation, payable on the 30th June 1983, there will become due in respect of Bear's Depository Receipts a gross distribution of 3 cents per unit.  
The Depository will give further notice of the Sterling Equivalent of the net distribution per unit payable on the 30th June 1983.  
All claims must be accompanied by a completed Claim Form and USA Tax Declaration obtainable from the Depository. Claimants other than UK Banks and Members of The Stock Exchange must locate their Bear's Depository Receipts for marking. Postal claims cannot be accepted. The Corporation's First Quarter Report for 1983 will be available upon application to the Depository named below.  
Barclays Bank PLC  
Securities Services Department  
54 Lombard Street  
London EC3P 3AE

**IMPERIAL JAPANESE GOVERNMENT**  
THE BANK OF JAPAN, LTD. are instructed by the Japanese Government to receive the bids for the sale of the Japanese Government Bonds (JGBs) for the period from June 1 to June 30, 1983. The bids will be received at the Bank of Japan, Ltd., 2-1-1, Marunouchi, Chiyoda-ku, Tokyo 100, Japan, on or before June 1, 1983, at 10.00 a.m. (Tokyo time). The bids must be accompanied by a completed Bid Form and a copy of the Japanese Government Bonds (JGBs) for the period from June 1 to June 30, 1983. The bids must be submitted in duplicate, one in Japanese and one in English. The bids must be sealed and marked "BID FOR JGBS". The bids must be submitted to the Bank of Japan, Ltd., 2-1-1, Marunouchi, Chiyoda-ku, Tokyo 100, Japan, on or before June 1, 1983, at 10.00 a.m. (Tokyo time). The bids must be accompanied by a completed Bid Form and a copy of the Japanese Government Bonds (JGBs) for the period from June 1 to June 30, 1983. The bids must be submitted in duplicate, one in Japanese and one in English. The bids must be sealed and marked "BID FOR JGBS".

### COMPANY NOTICES

**INTERCOM**  
SOCIÉTÉ INTERNATIONALE BELGE DE GAZ ET D'ÉLECTRICITÉ  
Société Anonyme  
place du Trône 1, Bruxelles, Belgique  
NOTICE OF ANNUAL GENERAL MEETING  
NOTICE IS HEREBY GIVEN that the annual general meeting of the shareholders will be held on Friday, 20th May 1983 at 11 a.m. at the registered office of the company, place du Trône 1, Bruxelles, Belgique.  
1. To receive the reports of the Directors and the Comptroller and the accounts of the company for the year ended 31st December 1982.  
2. To approve the balance sheet and the appropriation of profits and the proposed dividend for the year ended 31st December 1982.  
3. To elect Directors and the Comptroller.  
4. To elect Auditors and "Commissaires".  
Notices of shareholders entitled and wishing to attend or to be represented at the meeting should be sent to the Secretary of the company, place du Trône 1, Bruxelles, Belgique, at least 14 days before the meeting, as an authentication of their holding by a certificate of the company or by a copy of the company's register of shareholders, or by a copy of the company's register of shareholders, or by a copy of the company's register of shareholders, or by a copy of the company's register of shareholders.

**KOREA INTERNATIONAL TRUST**  
INTERNATIONAL DEPOSITARY TRUST CERTIFICATES REPRESENTING 100 UNITS  
Korea International Trust declared a distribution of \$3.75 per unit payable on June 25, 1983 to the registered owners of the units.  
Payments of coupon no. 2 from the International Depositary Receipt will be made on or before the 15th day of June 1983 to the registered owners of the units.  
New York, 30 West Broadway  
Frankfurt, 44-55 Mainzer Landstrasse  
Zurich, 28 Stöckhofstrasse  
The International Depositary Receipt will be the only document which entitles the holder to the distribution of the proceeds of the sale of the Korean Government Bonds (KGBs) for the period from June 1 to June 30, 1983. The International Depositary Receipt will be the only document which entitles the holder to the distribution of the proceeds of the sale of the Korean Government Bonds (KGBs) for the period from June 1 to June 30, 1983. The International Depositary Receipt will be the only document which entitles the holder to the distribution of the proceeds of the sale of the Korean Government Bonds (KGBs) for the period from June 1 to June 30, 1983.

**NOTICE TO BONDHOLDERS**  
F. L. SMITH & CO.  
94 PER CENT BOND CO. 1988  
Bondholders are hereby informed that the U.S. \$1,325,000,000 redemption payment on the F. L. Smith & Co. 94 Per Cent Bond Co. 1988 will be made on or before the 15th day of June 1983 to the registered owners of the units. The redemption payment will be made on or before the 15th day of June 1983 to the registered owners of the units. The redemption payment will be made on or before the 15th day of June 1983 to the registered owners of the units.

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01-493 1572.3. CONTEMPORARY PAINTINGS ON VIEW. Mon.-Fri. 10-5 and Sat. 10-12.45.

**COMPANY NOTICES**  
**BERGEN BANK INTERNATIONAL S.A.**  
US\$10,000,000 FLOATING RATE SUBORDINATED LOAN NOTES 1989  
In accordance with the terms and conditions of the above mentioned loan notes, notice is hereby given that the six months interest period from 15th May 1983 will carry an interest rate of 9.5% per annum and the coupon amount per US\$100,000 will be US\$7.25.  
SCANDINAVIAN BANK LIMITED  
Fiscal Agent

**NOTICE IS HEREBY GIVEN** that the Registrar of Companies for the London and the City of London has received from the Registrar of Companies for the City of London a copy of the Memorandum and Articles of Association of the company known as the "BERGEN BANK INTERNATIONAL S.A." and that the company is duly registered as a company limited by shares under the Companies Act 1948 and is entitled to trade in the City of London.

**NOTICE OF PURCHASE**  
**SUPREMAN INVESTMENT BANK**  
\$4.95 U.S. Dollar Bonds of 1979.  
Due May 15, 1989  
Pursuant to the terms and conditions of the above mentioned bonds, notice is hereby given that the bonds will be purchased by the bank on or before the 15th day of May 1983. The purchase price of the bonds will be \$4.95 per \$100 of face value. The purchase price of the bonds will be \$4.95 per \$100 of face value. The purchase price of the bonds will be \$4.95 per \$100 of face value.

**NOTICE TO BONDHOLDERS**  
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94 PER CENT BOND CO. 1988  
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## TECHNOLOGY

VERSATILITY KEYNOTE IN GROWING MARKET

## Process control boom near

BY ELAINE WILLIAMS

AS THE process industries look for more specialist products to manufacture, Fisher Controls, part of the Monsanto group, believes that a large market is opening up in batch systems for process control.

It is aiming to win a large part of that market which is growing at a rate of about 10 per cent a year.

"Chemical producers are turning away from single product, continuous processes," says Gerald Parry-Jones at Fisher Controls. "Specialty products are becoming the life blood of the processing world," he believes.

Products such as additives, dyes, phosphors for television sets, and liquid crystals for electronic displays, add high value compared with the very low profit margins on continuous bulk materials production.

So, Fisher sees a large market potential in the batch control sector of the processing industry. Already process control accounts for a third of Fisher's business. Its other main activities of equal size are in power station control and monitoring systems.

Mr Parry-Jones believes that batch processing will become the major growth area for process control manufacturers as more chemical and other processors move towards lower quantity, high value production.

Particularly important will be the ability for processors to make several products and versions of the same product on a batch basis using the same basic process plant. This means that the emphasis will be on very versatile process plant and control equipment to allow complex mixtures of products.

To meet this market Fisher has developed a batch process

version of the Provox process control system it introduced three years ago. The development of the software system alone took 100 man years. Although much of the hardware design went on in the U.S., the long experience of Fisher's software team at Leicester provided an important input to the system.

Provox has been designed so that process engineers can programme the system using a computer language designed to be similar to their own technical jargon. Process engineers can even design their own mimic diagrams in full colour with ease on the system.

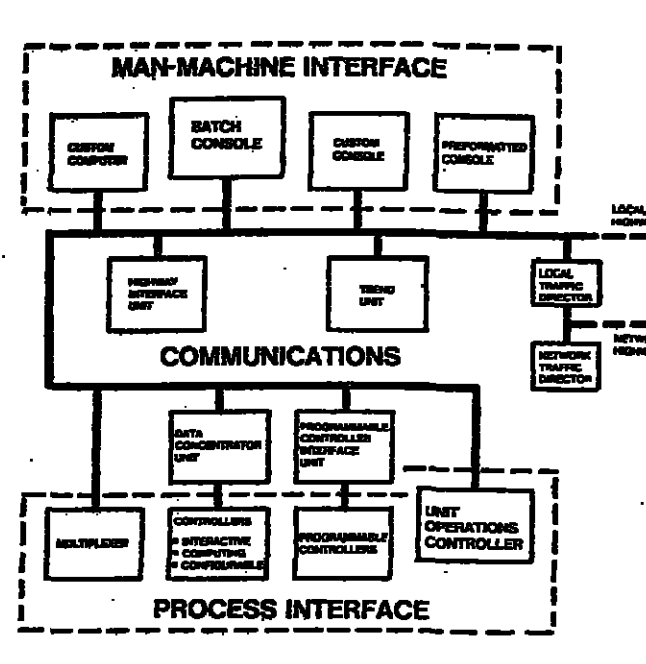
As well as software, the company also has experience in communications which is a vital part of process control. It allows sensors and intelligent data gathering instruments to communicate over large distances from the site of production to the main control centre.

The smallest version of its batch control system costs about £5,000 and Fisher already has several orders on hand. The system consists of a main processing unit, with a back up system ready if there is any failure to take over.

It is linked to large colour visual display units from which customers are able to monitor and control every aspect of production. Also a wide variety of management information can be obtained from the system.

Mr Parry-Jones explained that Fisher had attempted to simplify the procedure of setting up a computer based process control system. This had been achieved by splitting the software needed to control processes into various components which are fundamental to all

## PROVOX INSTRUMENTATION SYSTEM



manufacturing processes.

For example, this could be filling tanks with raw materials, heating cycles, cooling cycles, reacting chemical together and transferring products from reaction vessels to storage tanks.

According to Fisher this allows manufacturers to delay as long as possible the final decision on software design.

When a single plant may be producing a number of different products simultaneously this way of design enables pro-

cess engineers to set up the complex steps involved in mixed batch production.

Fisher Controls, which is part of the Monsanto group, has gone through major changes in the past few years. Four years ago, it was integrated with GEC's former process control company which complemented Fisher's existing expertise. Earlier this month Monsanto agreed to buy GEC's 33 per cent stake in Fisher Controls International.

AWAKENING THE 'SLEEPING GIANT' OF COMPUTING

## Slow growth in use of information utilities

BY LOUISE KEHOE IN CALIFORNIA

"INFORMATION UTILITIES" used to be about as dull as the name would suggest in the view of most consumers. These data bases offer a mix of news culled from business publications, consumer information and entertainment.

While the use of such services is growing, the information utilities are still reaching only a small fraction of their potential audience. While other uses of personal computers have gained mass market status, "hooking up" personal computers to communications lines has remained largely the preserve of the computer "buffs."

The biggest information utilities—Dow Jones news retrieval, the Source and CompuServe, have between them a total of close to 100,000 consumers (does not include business subscribers) subscribers—double the number of 12 months ago, according to Data Resources Inc. The major limiting factor in the growth of information utilities is that many of them have grown out of business data base services and have been only slightly revamped to suit the consumer/small business markets.

Finding what you are after on an information system—be it a

game or a stock unit—can be a tedious and expensive process. At \$25 to \$50 per hour the information utilities are not used for fun. Several of the services do, however, offer "after hours" cut rates that allow the consumer to take advantage of their services.

Some new developments in information utilities may, however, change the picture and awaken the "sleeping giant" of personal computing. Currently, less than 10 per cent of personal computer owners have a "modem"—the piece of equipment needed to connect a computer to a telephone line—according to U.S. market researchers. The rest are missing out on an increasingly wide range of services that can open up data bases, electronic mail services and software-by-wire facilities.

Electronic delivery of software—a kind of electronic mail order system—is one of the aspects of information utilities that is beginning to attract more customers. Bargain hunters like the low prices (sometimes half of the regular retail price of programs obtained via the information systems).

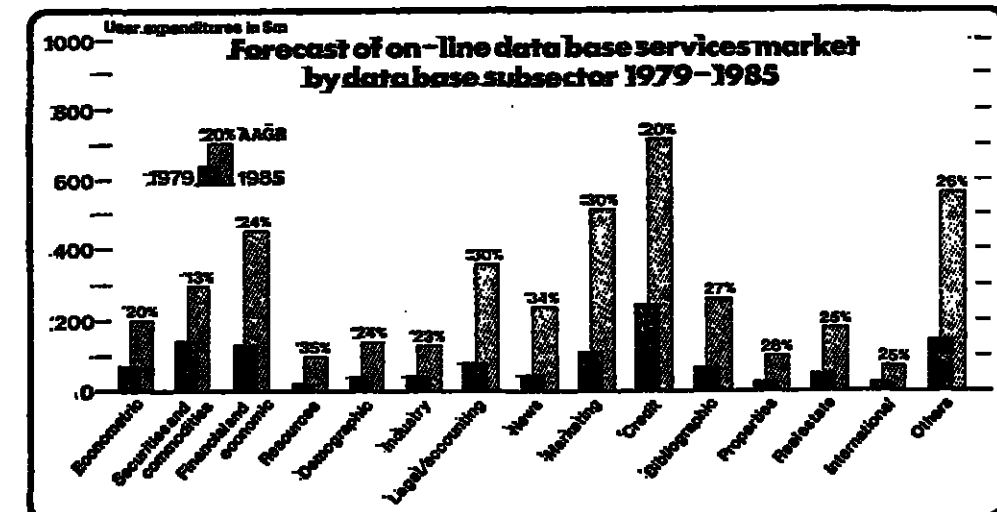
In the U.K., Prestel recently introduced an electronic soft-

ware delivery service for video games and home computer programs that sell for a fraction of their retail prices.

New versions of software-by-wire are also emerging in the U.S. Cable television connections are used to distribute video games by play cable to several major cities around the U.S. The joint venture between Mattel and General Instruments offers owners of Mattel's Intellivision video game machine up to 20 games per month for less than \$10.

Another new wrinkle that is attracting more users to the electronic utilities is the combination of information services and personal computer programs that give the user the ability to access data, combine it with his own figure and perform an analysis of the information.

An example is Visicorp's Visitalk program which electronically transfers selected business information over the telephone from Data Resources Inc. in the form of Visicalc worksheets. Data obtained from DRI can be combined with private/business data and manipulated according to the assumptions and needs of the individual personal computer user.



How the market for information held on computer data bases is expected to develop through to 1985. Computer software delivered over the telephone lines is the latest addition to the picture.

AID FOR USERS OF 'SPREADSHEET PACKAGES'

## The latest offering in screen calculators

GOOD NEWS for writers of "spreadsheet" packages, the computer equivalent of the accountant's rows and columns of financial predictions and realities.

"I thought Visicalc had cornered the market but it is still absolutely enormous,"

says Ms Helen Smith of Lifeboat Associates, a six-year-old New York based company which was one of the first publishers and distributors of small machine software.

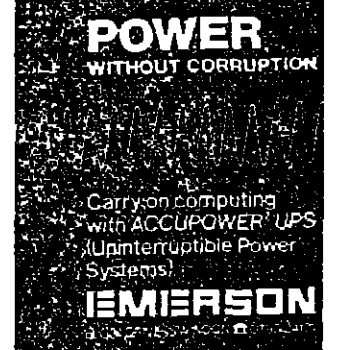
Its latest offering in the spreadsheet stakes (or screen calculators as Lifeboat calls

them) is T/Maker III which computes, calculates and produces financial documents.

Where T/Maker III improves on previous versions is its ability to handle graphical representations of data in a table into bar charts which can be printed or just

displayed on the screen," Lifeboat says.

It also combines spreadsheet capabilities with word processing on the grounds that most financial reports involve both text and figures. More from Lifeboat in the UK on 01-628 9028; the package is £155 including the manual.



Software

## Process control

AN ORDER processing and stock control system designed to run on the top-of-the-line VAX minicomputers from Digital Equipment (DEC) has been launched by Software Sciences.

A leading software and systems company and part of the Thorn EMI group, Software Sciences has created the package for general purpose application in the distribution industry.

Called OPRA, it is said to be suitable for multicompany, multi-warehouse and single location distribution.

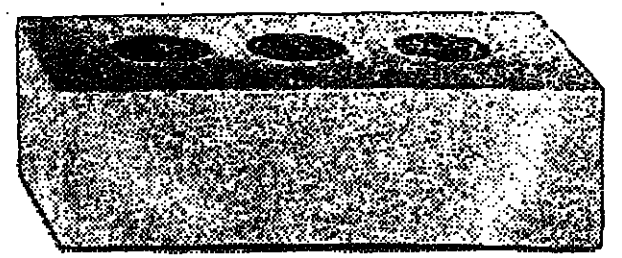
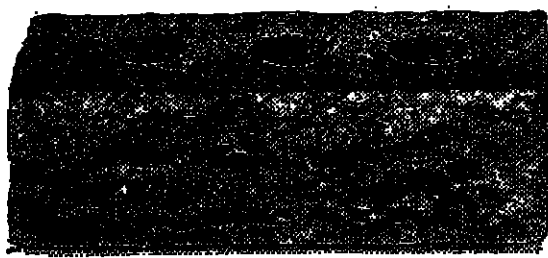
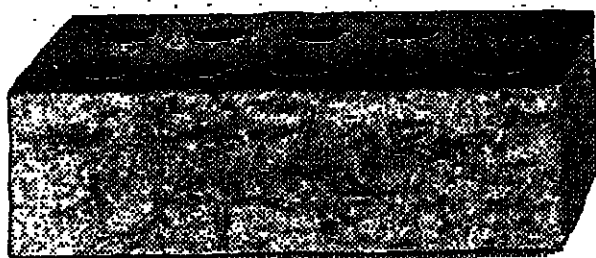
It is designed for customisation through a large number of options. David Packwood of Software Sciences says: "OPRA assumes from the start that every implementation will be tailored precisely to an individual site. It is an extremely thorough distribution package." More on 0252 544321.

Microcomputers

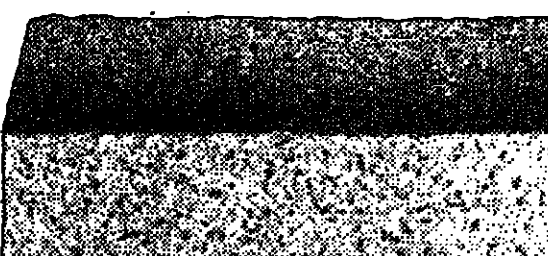
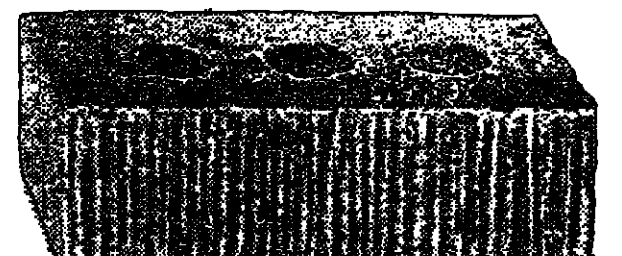
## Machine to span the gap

BUSINESS Computer Systems based in Borehamwood, Herts, is distributor for the Xerox 8010 micro-computer. The company says that this machine is a multi-user, multi-tasking machine that spans the gap between personal and business users.

Based on the 286A micro-processor, the basic machine comprises a 64K central processor with an integral 1920 character display and detachable full alphanumeric keyboard. It has double-sided, double-density floppy disc drives with a storage capacity of 2 Mbytes. It is possible for larger capacity storage with 10 Mbyte Winchester drives. More information on 01-207 3344.



Now available where you see this sign ➡



What's this? Railfreight are into bricks?

No, it's the other way round. Butterley bricks are into Railfreight's new Speedlink Distribution service.

Furthermore, they're into Speedlink depots around the country. It's a classic story of two apparently dissimilar companies profiting by their collaboration.

A year and a half ago Butterley Building Materials had established themselves in markets hundreds of miles from their kilns in the Midlands and Wales.

But they still had a problem. They felt there had to be a way they could service their customers more efficiently, yet generate new business too.

The marketing team at Speedlink Distribution suggested they put their Blaby Golden Russets 'et al' on the train. Then freight them North and South to selected Speedlink depots.

Here they'd be stockpiled, close at hand for the builders' merchants and contractors to buy on the spot. Last year Butterley sold no less than 10 million bricks from these Speedlink 'shops'. Enough to build a small town.

And they're cementing relationships with new clients through their ability to deliver as little as a single pallet-load of specialist bricks, or as many as it takes to build an estate.

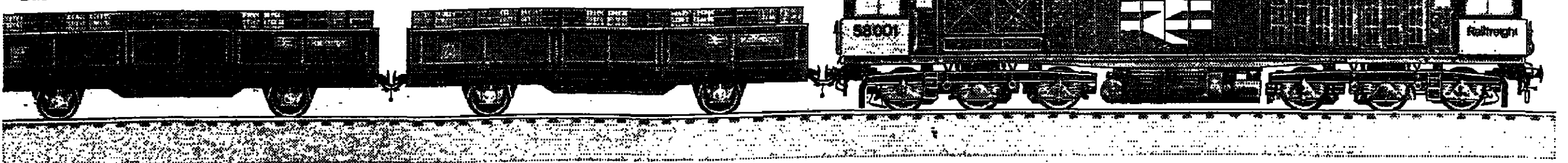
At a time when the building industry is depressed, Butterley are

distinctly cheerful. Nor are they Speedlink's only satisfied customers. Taunton Cider, Cinzano and Rowntrees are among many who have found help readily available where they saw this sign ➡

For all the facts contact Stan Judd on 01-262 3232 extension 5503 or write to him at 222 Marylebone Rd, London NW1 6JL. But if it's bricks you're after, please get in touch with Butterley first.

➡ **Speedlink Distribution**

Put your business back on the rails.





## BUILDING AND CIVIL ENGINEERING

## Civil engineering static

THE BELEAGUED UK construction industry has seen little change since the beginning of the year according to the latest workload survey from the Federation of Civil Engineering Contractors.

"Some indications of better prospects ahead" were recorded in the January 1983 workload survey. The latest survey, in April, while still showing such signs, clearly indicates that the situation varies considerably from company to company.

The FCEC said that overall there had been a small increase in orders since the last survey, compared with both six and 12 months ago.

Of the 211 companies which replied in the survey, 35 per cent said order books were better than 12 months ago, 26 per cent said they were the same and 39 per cent said they were worse.

The FCEC said: "Although the results show that relatively more medium to large (500-1,000 operatives) and large firms are without civil engineering work, there is a work report healthier order books with corresponding slight improvements in both value and volume terms. However, the general level continues to remain extremely low."

Invitations to tender have, however, fallen recently with tender lists still lengthy and the value of contracts generally decreasing.

There has been little overall

change in employment compared with the last survey with the most significant feature being the increased number of medium-to-large and large companies employing more operatives than a year ago.

All categories of companies have increased their holdings of plant compared with 12 months ago, according to the FCEC which said: "The overall trend therefore reverses the recent run-down in plant holdings."

"The level of plant utilisation has also increased slightly but remains disappointingly low."

The Federation said estimated trends for new orders, repair and maintenance and employment were marginally more optimistic "reflecting a reaction to very low levels of activity rather than confident predictions of growth in the industry."

Mr Sandy Shand, president of the Federation, speaking at the FCEC annual dinner earlier this week, cast doubts on the viability of Labour's plans to revitalise the ailing construction industry by offering huge new programmes of work.

While the "sadly under-employed" construction industry did not want to look "too closely into the mouths of gift horses" Mr Shand nevertheless wondered whether Labour's ideas would prove over-ambitious if the party won the general election and tried to put them into effect.

"When you look at what the Labour Party is promising to spend, not just on new construction programmes as well, it really is difficult to see anything other than bottlenecks and price increases in the short term, followed in a few years by inevitable cutbacks... and we all know where the principal cuts would fall," he said.

Earlier in his speech Mr Shand referred to two problems looming on the horizon for his industry. First, the move towards setting up quality assurance systems and Common Market rules for "noise control" at places of work.

The proposed quality system, Mr Shand warned, could simply lead to more bureaucracy "with inspections on site, delays while decisions are being made and all the accompanying paraphernalia."

Contending that they were unnecessary, he said: "In free market conditions if you don't perform satisfactorily, you don't get the next job. That is a salutary incentive but without a bureaucratic set-up."

The FCEC, he said, was asking the Government to take a firm stand against the proposed EEC Noise Legislation and to support higher thresholds, which while costly to attain, were at least workable in the industry.

LISA WOOD

## Portakabin goes up market

PORTAKABIN, which started life 22 years ago to provide temporary, on-site accommodation, has finally completed the transformation into a company capable of taking on the market normally serviced by traditional building methods.

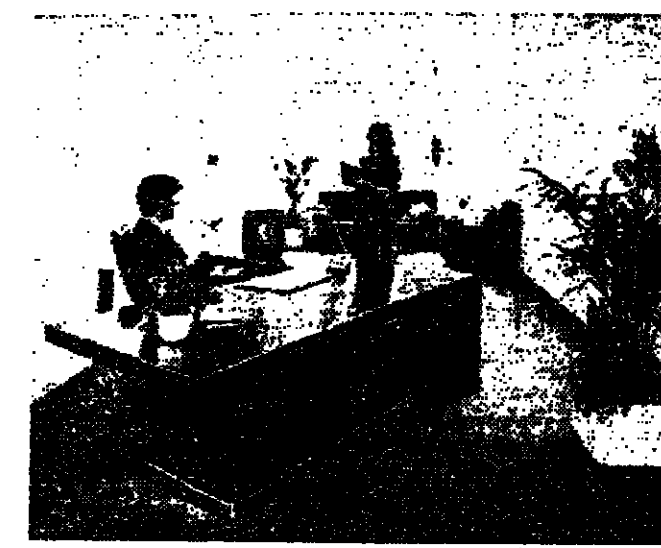
Recent winner of orders worth over £2m each for the supply of buildings to the Falklands and Ascension Islands, the company has now launched its Pullman range, offering new standards for accommodation and for the working environment.

The Pullman range offers a selection of eight, self-contained buildings, ranging in length from 16 ft to 60 ft, the largest with the floor area of a small family house and yet still capable of being delivered by truck and being off-loaded by one man.

The Pullmans are steel-framed, designed to comply fully with UK building regulations, selling on speed of completion and flexibility of use rather than, necessarily, as a cheap alternative to traditional buildings.

From its headquarters in Huntingdon, near York, and from subsidiaries in France, Germany and Holland, Portakabin services an export market which takes about 50 per cent of its total production.

In the UK, sales outside the construction business now represent about four-fifths of its sales, says marketing controller Jeremy Cockayne. Of that, perhaps a quarter are centred on central and local government and health authorities, and about 70 to 80 per cent



a high quality steel-framed module building system which has been going for two years, and has been used in 70 projects in that time.

Architect Reginald Stallard, head of design at Portakabin, uses three Yorkton projects to illustrate how the company sells its skills.

At Hinkley Point nuclear power station, he says the CEGB wanted a 17,000 sq ft extension to its office accommodation, the original being a prestige building by Sir Francis Gibbons and Partners. "Here," he says, "speed of completion was a crucial factor in choosing the building system."

Meanwhile, at Hatfield, British Aerospace needed a two-storey building incorporating a computer suite, reception and offices on the ground floor and offices upstairs with visual display units plugged into the downstairs computer. That involved demolishing the existing building which housed the computers and occupied half of the site.

"We were able to put up half of the building on two floors so that they could move the computers in and keep them operational, while we demolished the original building where the second half of the new building

is going to stand," says Stallard. At Leeds General Infirmary, where new operating theatres were needed in a very restricted courtyard, "it would have taken months in the traditional way," says Cockayne. "Portakabin performed one of its more spectacular stunts."

"We took a gigantic crane and slung them in over the top of the existing buildings," says Stallard. "We had a completely dry area in less than a week." The theatres, modified Yorkton with extra high ceilings are being fitted out in situ and needed to be dry before the fitting out could take place.

But Portakabin has no brash ideas about actually replacing traditional construction. It is, in fact, part of the Shepherd Group of privately-owned construction companies based in northern England.

"We have just under a 1,000 employees and a turnover of around £20m," says Cockayne. That is a tiny proportion of the total market.

WILLIAM COCHRANE

## Double-glazing key criteria

THE GLASS and Glazing Federation is having talks with the Greater London Council over a dramatic television commercial which warns against fixed double-glazing in windows.

Mr Bryan Hern, director of the Federation said that part of the commercial, which shows a woman hitting a double-glazed window with a chair to no avail, was misleading.

He said that 99 per cent of glass used in double-glazing, averaging three to four millimetres, would not be difficult to break as it was ordinary, or "annealed" glass.

Firemen had stated a preference for sliding or open panels in double-glazed windows, but Mr Hern said that many

customers preferred fixed glazing because of safety concerns. He said that between 1973 and 1976, 72 children under the age of 14 had died by falling out of windows.

Consumers had a choice, and most double-glazing companies offered a wide range of products. Some did install shatter-proof glass in double-glazing because of security concerns.

The industry stresses that as long as a window opens easily it does not matter whether the glass is strengthened or not. The key criteria for good double-glazing were:

- The product should open easily.

- It must be totally draught-proof.

- It must incorporate locks to prevent burglars.

- It must be good looking.

- It must be fitted by an expert.

Sir George Young, Under Secretary of State for the Environment, told MPs earlier this month that the Home Office was considering changes in regulations aimed at ensuring that the installation of double-glazing did not prevent the opening of at least one window in each room as a means of escape in case of fire.

This is in the wake of seven recent deaths in rooms fitted with fixed double-glazing.

L.W.

## Precast concrete frames could save millions

SAVINGS OF more than £70m (out of a total of £1,520m spent on office construction in 1981) could have been achieved by greater use of precast concrete frames, according to a survey undertaken by Trent Concrete Structures on the cost and time advantages of using such frames.

This saving emerged during a compilation of costings following the publication last September of the Constrado report comparing the cost of building with steel frames and in situ concrete frames.

Although Trent agreed broadly with the report's conclusions that construction times were a significant factor in overall building cost, it decided to make its own case for using precast concrete frame as an

alternative to steel or in situ concrete.

Precast concrete frames, which were not considered in Constrado's report, take a 10 per cent share of the available frame market with a high degree of repeat business from contractors operating in both design and build and management fields.

Trent took the examples given in the Constrado report and costed them on normal standards of quality, manufacture and profitability. The results showed in situ concrete frame construction to be slower than steel or precast concrete and the cost of precast concrete frame construction to the contractor to be generally cheaper than either steel or in situ concrete. More from Trent on 0602-281331.

## CONTRACTS

## Trafalgar House wins £230m

UK and overseas contracts worth £230m have been won by TRAFALGAR HOUSE civil engineering and building companies—ranging in scale and value from specialised consultancy appointments to multi-million pound turnkey packages.

As envisaged when Cementation International signed its £215m turnkey design and construct contract for the Sultan Qaboos University, negotiations have been completed for the incorporation within the scheme of a 500-bed teaching hospital to be associated with the faculty of medicine. It will be fully equipped and ready to receive medical students from the university, scheduled for completion September 1986, for the start of the academic year 1986-89.

In India three contracts have been secured, by 51 per cent owned publicly quoted company Cementa, at Vizag, Paradip and Madras, for piling, diaphragm walling and vibrofloatation work, totalling some £16m.

Cementation International will shortly begin work on the £21m Bakurdi market contract, Nigeria, comprising covered market, administration buildings and car park.

Work has just begun, near Heathrow, on the £44m M25/M4 London orbital road link. The project incorporates a four-level free flow interchange which will be a feat of civil engineering for Cementation Construction and joint venture partner Costain.

Among the other new multi-discipline contracts awarded to Cementation Construction—a £4.8m Croydon waste transfer station for the GLC, £2.3m Cartgate to

Yeovil road for Somerset County Council, £2.5m worth of pipeline contracts for the British Gas Corporation, a £3.2m bulk fuel installation at Mildenhall for the PSA and smaller contracts for light industrial buildings, sea defences, jetty, underground station repairs, airport taxiways, canal works, multi-storey car park and country park lake.

A £7.5m research building is the latest in a series of design and construct contracts won by Cementation Projects for pharmaceutical manufacturer Pfizer in Kent. Trollope and Colls is busy in London, where current contracts include the new Standard Chartered bank in Bishopsgate, a headquarters building for Mobil and a

reconstruction project for the Royal London Mutual Insurance Society. The company has started work on a £20m office development in Woking for Westbourne Terrace Investment Company. Trollope and Colls (City) has a record order book and among contracts recently obtained is a £10m refurbishment of Export House for Land Securities.

Willett operates on a national basis and is involved in office developments worth a total of £17m at Basinstoke and Bracknell as well as in other sizeable contracts in the Midlands and West, while Trollope and Colls management is building an awards list which includes a new £25m headquarters for Williams and Glyn's Bank.

## £4m Chinese embassy for Wates

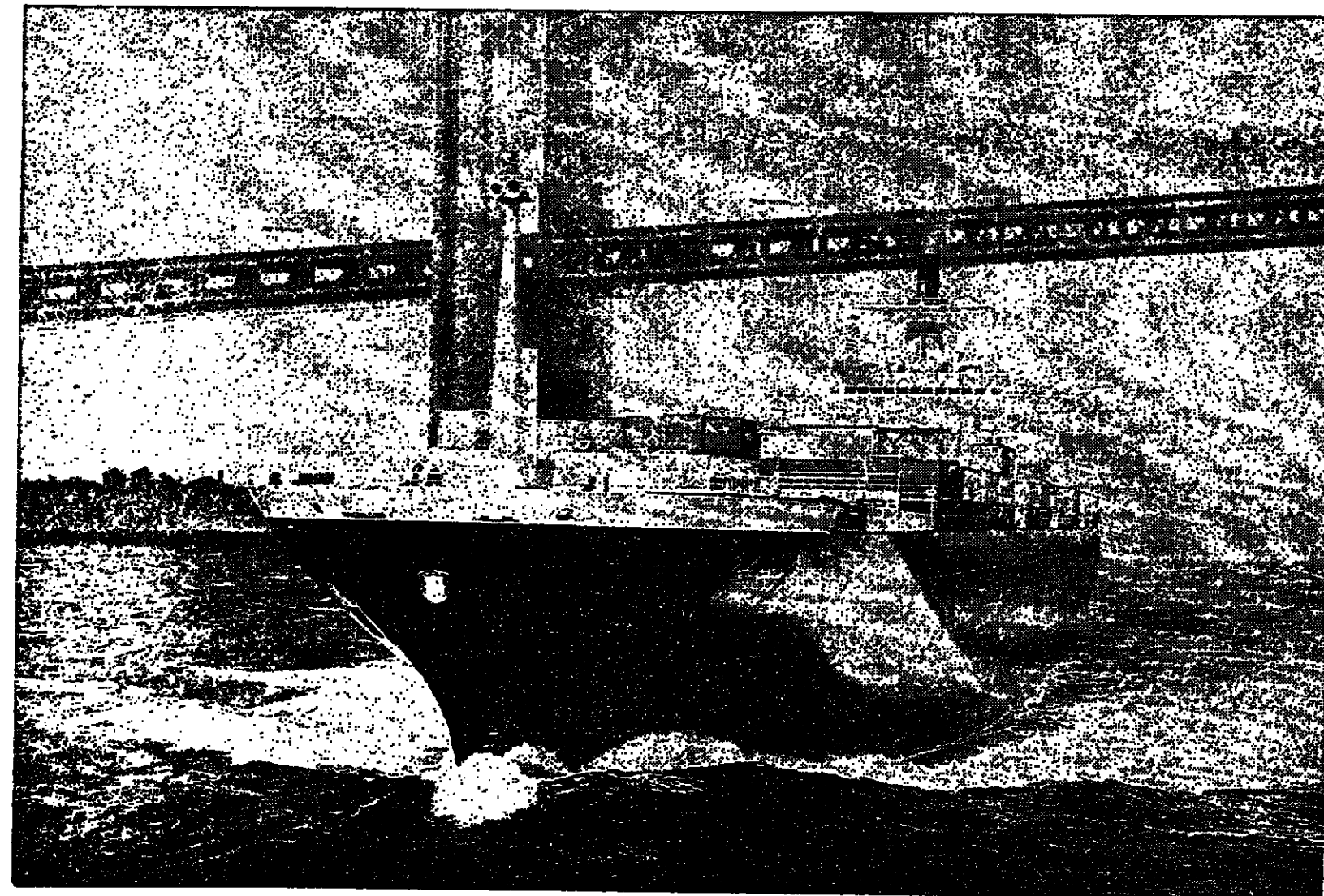
The new embassy building for the People's Republic of China at 49-51 Portland Place, W1, is to be built by WATES CONSTRUCTION under a £4.1m contract. It will be an eight-storey building with a mezzanine floor and a basement and sub-basement. WATES SPECIAL WORKS has secured contract worth £7m in the London area. Work includes a £1.5m contract for the Halifax Building Society, for the con-

version of an eight-storey office block in the Strand, and, for the London Borough of Hackney, a £1.5m contract for the modernisation of 70 flats at Sylvester House, E8. Legal and General Assurance Co has placed the fitting out of Clifton House, Ealing, at around £20,000, whilst under a fixed fee prime cost contract, Sun Printers, part of BPCC, is to convert the paper stores at its Watford plant.

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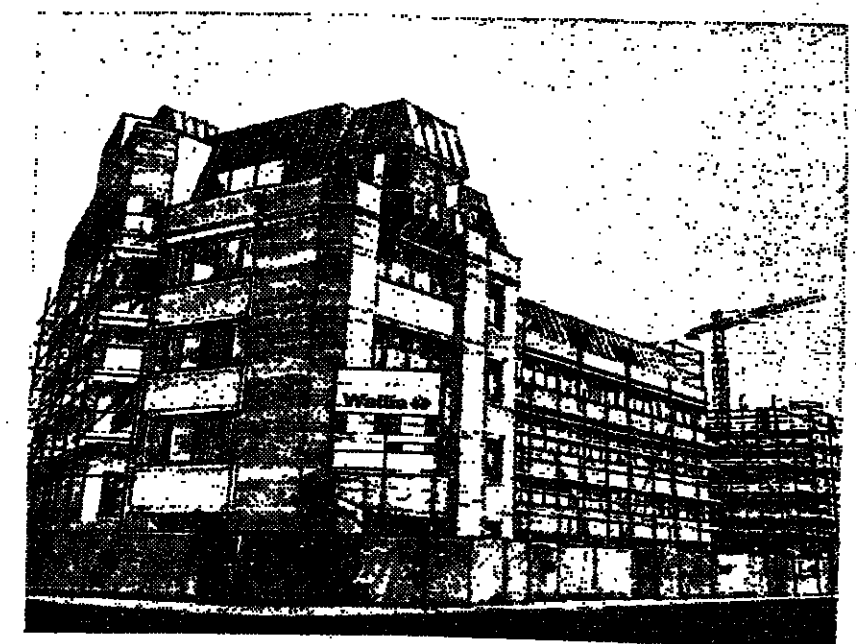


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Linas Zurich SBV 383



## Built by Wallis – the construction company with solid foundations

At Holborn Place, SW1 G E Wallis & Sons are building a mixed development for Wheatthorpe Investments. The 'architectural trademark' of the Chapman Taylor Partnership is evident in the fine flintish bond brickwork. The main structure has a concrete frame, with a mansard roof and a series of ornamental turrets, each topped with a lead clad dome. The restricted triangular site posed special foundation problems as it is bounded by Sloane Square Underground Station in deep cut at the rear and the front boundary has an 8' diameter live

brick sewer running just below ground level. When completed later this year the building will provide 35,000 sq ft of prestige offices, 19 luxury flats and a penthouse suite.

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Building since 1860

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Then there's a range of strong chassis which give excellent payloads at 16 tonnes GVM. This all adds up to substantial savings on total cost of ownership, compared with our key competitors.

## MORE FEATURES AS STANDARD

1983 Product features on 1615/17/20 models now include:

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- Power-assisted clutch (on 1617 models)
- Power-assisted steering
- Laminated windshield
- Steering column lock
- Thermoviscous fan
- Reversing lamp
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**Effective savings up to £1300**

Effective savings referred to are a comparison of today's maximum retail price of the latest specification Cargo model, compared with the maximum retail list price of a similarly equipped model in September 1982. The model identification numbers denote nominal GVM and nominal BHP e.g. 1615 = 16.25 tonnes GVM, 153 BHP engine.

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## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

## Letting the picture tell the story

USING audio-visual techniques to communicate with employees is not a new phenomenon in British industry. Slides and films have been used for many years, albeit by only a small number of companies.

More recently, however, the advent of video has opened up new horizons, not least because of its cost advantages and the new vogue for increased employee involvement.

There is little published evidence on the extent of audio-visual use in British industry but a private survey by a top public relations consultant of 145 delegates to the annual conference of the Institute of Personnel Management in 1980 showed that a mere 20 per cent of companies used video for employee communications.

A further 7 per cent said they would certainly be using the technique in the near future. Only 25 per cent said they were using other audio-visual methods such as tape-slide, film or film-strip.

Because of the heavy investment involved, relatively few companies can afford to have their own in-house facilities to make audio-visual programmes. Among them are ICI and Barclays Bank.

But elsewhere, independent production companies are flourishing. Some have been fronted by popular TV and radio entertainers and presenters such as the comedians John Cleese and Michael Barratt (formerly of BBC's Nationwide programme) and Brian Redhead of Radio Four's Today programme.

Most of the programmes fall into the "training" category but an increasing number are dealing with promotional material and corporate information such as profit-sharing schemes and annual reports that management want to pass on to employees.

Companies which have used audio-visual techniques include a wide cross-section of major groups, as the client lists of World Wide Pictures and another large independent pro-

ducer, London-based Wadlow Grosvenor Productions, shows. WGP currently has more than 100 films in various stages of completion.

Among the films they have made are, for example, a training film for Woolworth to help prevent shop lifting. Elsewhere, Wimpy used film to launch an internal campaign to help its own franchisees get a bigger share of the fast-food market.

Companies like W. H. Smith,

**Arnold Kransdorff**  
on how video can relay the corporate message

the technique to demonstrate the advantages of its proposed merger with Alexander and Alexander of the U.S., and the National Freight Company used it to explain its own management buy-out.

In all these cases, the film was directly commissioned by individual companies for showing to employees or potential customers. There are other production companies which take another approach to the audio-visual market.

Video Arts, John Cleese's company, for example, makes films which it sells to companies mainly as a training aid.

A popular film it has made is one on statutory sick pay, an explanation of the intricacies of the latest legislation on the subject.

## Shop floor audience

CHRIS HOPE sells films. Not the big screen variety that comes out of the major studios but 10-to-20 minute versions that are finding a growing audience on the shop floors of British industry.

A former line manager with Richard Costain, the building contractor, his conversation turns easily on subjects like management strategy and shop floor problems.

What he has done is turn his industrial skills to a celluloid format. As marketing director of World Wide Pictures, one of the largest industrial film makers in the UK, he spends his time trying to persuade companies to use audio-visual techniques to communicate their often indecipherable management jargon to their workers.

This might be a film of the kind made for the Post Office, a training film, an explanation of a company's new pension scheme or a simplified audio-visual version of the annual results.

In a typical year, World Wide produces about 30 films. Over the past 40 years it has picked up more than 200 creative awards all over Europe and the U.S.

When he is making films, Hope employs one basic principle: always keep the audience in mind. In his case, the audience is generally a shop floor worker.

In the British context, this usually means an individual "who is generally relatively unsophisticated in the understanding of management jargon, who must never be taken for granted and who must never be spoken down to," says Hope.

"Successful programming involves balancing the expectations, requirements and perceptions of the audience with the intuitive skills and experience of the film-maker."

When Hope is called in to make a film one of the first decisions he makes is its length. This depends largely on the nature of the employee's work, says Hope, although it is never finite.

"If the audience is working on a conveyor-belt—such as those used in car manufacturing—the film would normally have to be much shorter than one made for workers assembling, say, electronic equipment on a non-production line. The reason is very simple; when you're showing the film you can't hold up a conveyor belt for very long without affecting the output of the final product."

"For workers on a non-production line process, a film can contain more information and you can take more time pacing a message."

Once the optimum length is decided on, Hope then turns to content. This is usually a collaborative effort by himself, one of his producers (the person responsible for selecting, managing and motivating the creative people involved in the film), a freelance writer/director and the company.

"It is important for everyone to get involved, and agree, the major focus. Then we get on and make it. It usually takes between three to four weeks to produce a film."

A typical structure for a film on a company's annual results would contain five elements, says Hope.

"There would be an opening sequence to set the scene, possibly including some reference to previous programmes in order to establish continuity."

"This would be followed by a section which could be called 'Where Are We'—an account of profits, or losses. After this would come 'What Does It Mean?' a value judgment on the



John Cleese: playing St Peter in a film in which he puts a disorganised manager back on an organised path.

performance, and 'Where Are We Going?' a section which would deal with the tasks facing the business.

"It is this part of the film that is the most important. This is where you are hopefully focusing the message. The aim is to involve the audience so, come discussion time at the end of the film, they can be stimulated to improve performance."

The final part of the film would feature "The Boss," where the chairman or chief executive would be interviewed. "The aim here is to put the top man up front answering the kinds of questions that the audience—the workforce—would like to ask."

Because the company is always the final arbiter of content, Hope concedes that it is impossible to achieve the same measure of credibility that would arise from an outside press interview. Nevertheless, he believes it is possible to go

some way towards this by choosing professional presenters and narrators whose reputations have been built on "objectivity and independence."

He also believes that the films he produces should not replace communication between line managers and their staff—but complement it.

"Communications need also to be two-way, and audiences like to respond face-to-face with a management spokesman after each programme."

## Attitudes on franking

LOOKING SOMEWHAT displeased, a manager from Barclays Bank appears on the screen to complain that many of his clients did not get their dividend payments and pension

cheques on time; equally disgruntled is a man from the Royal Society of Arts, who complains that his examination papers were not arriving at colleges fast enough.

These two incidents appear as clips on an unusual video film designed to change attitudes of Post Office employees towards franked mail, the postal system used by most businesses. In 1979 a lot of business mail was not getting through as it should—and the Post Office was coming under pressure to improve the quality of its service.

The problem, the Post Office discovered, was that many of its key staff—from postmen to sorters—unconsciously considered stamped mail to be more important than franked. As a result, the latter, which accounted for about a third of total letter mail—bringing in revenue of around £2m a day—was given lower priority.

Only 74 per cent of first-class franked mail, for example, was being delivered by the following day, compared with 82 per cent of stamped post. And out of every five letters delayed in the Post Office system, four were franked.

Today, the picture is much improved, thanks largely to the Post Office's internal communications campaign to change employee attitudes. It believes that a concerted campaign involving posters, news sheets, in-house newspapers and a sophisticated video presentation has helped it largely to overcome the negative attitude towards franked mail, although it concedes that there is still some way to go.

Within the context of an improvement in the postal service overall, the so-called meter gap—the difference between the quality of service given to franked and stamped mail—has been cut from 8 per cent in 1979-80 to 4 per cent in 1982-83.

Back in 1979, the problem looked insurmountable. So how did a nationalised industry, not known for its progressive management attitudes, itself change the attitudes of its workforce towards a crucial element of its business?

In the event the Post Office decided to look outside for help. It brought in communications specialists Charles Barker Lyons who in turn commissioned World Wide Pictures, an industrial film maker, to produce a video presentation.

Between them and the Post Office's own public relations department, they produced a communications package which, by standards evident elsewhere

in industry, has broken new ground in the field of industrial propaganda.

To communicate information to employees, most companies choose the technique of simplifying the message as much as possible and then visually dressing it up to make it eye-catching and interesting. This is often seen in presentations of annual reports and in the training field.

In the Post Office, the campaign was designed to be "instructively suggestive," says Peter Milne, director of mails operations. Spearheaded by the video (cost £12,500), it incorporated a visual package of ideas to improve working practices throughout the national network of 600 sorting offices.

An important element of the campaign was to show that all the ideas most were the brainchildren of on-site management or the shop floor rather than head office.

What the Post Office wanted to do was pass these ideas on in the hope that individual sorting offices would either take them up or come up with suggestions of their own. In the event employees "became very receptive to change, particularly to the ideas mentioned on the film," says Milne.

With the video, the technique used was to feature key operations people in the Post Office to drive home the message that franked mail was an important element of the business but that the quality of service had fallen far below both the minimum acceptable level and the level accorded to stamped mail.

In every case local Post Office personnel were used to illustrate their ideas—and all were endorsed by more senior officials.

The video ends with the industrial equivalent of a statesman's call to arms. Mike Berry, a former divisional head and now Postmaster Controller at Mount Pleasant, one of the main national sorting offices, is interviewed saying: "We have shown, and we have enough evidence to suggest, that if an office wants to solve the problems and gets down to it and in fact finds its own solutions, then those solutions are highly successful."

He then suggests that the answers would come from people getting together from all levels, from discussion and from an analysis of their problems.

After its showing, time was allotted for discussion and in almost every case the ideas mentioned were taken up in one form or another.

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By John P. O'Flaherty, Secretary

May 16, 1983

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Monday May 16 1983

## A chance to help Paris

FINANCE MINISTERS of the European Community today have the opportunity to underwrite the anti-inflationary policy launched by the French Government at the time of the devaluation of the franc in March. The ministers will be asked to rule on a French application for a Community loan, believed to be of ECU 4bn (about £2.4bn), which is intended to help France over the long haul to internal and external stability.

The stabilising measures taken by the French Government in March were hotly contested at the time. Neither President Mitterrand nor M. Pierre Mauroy, the Prime Minister, initially took a firm public stand in support of a package that was bound to alienate many voters and was repugnant to established Socialist doctrine.

**Tradition**  
It is notable that subsequently both men have made public statements swinging their support behind the policies devised by M. Jacques Delors, the Finance Minister. It is he who, at this moment, is the best guarantor of a French policy recognising international market realities rather than one based upon protectionism and other isolationist policies.

Of course that must be taken with a pinch of salt. France has a protectionist tradition going back three centuries and is ready to use administrative intervention to protect national interest. The fact remains that in March, Paris accepted the humiliation of devaluation instead of pulling out of the European Monetary System or otherwise going its own way.

The European Community and the West at large has an interest to ensure as far as it can that such isolationist trends are not encouraged. It has been one of the most heartening aspects of M. Mitterrand's presidency that he has taken his country closer to the western alliance than any of his predecessors in the Fifth Republic.

The austerity measures have aroused strong and predictable opposition both from the interest groups directly affected and from the left wing of the Socialist Party, notably M. Jean-Pierre Chevènement, the

former Minister of Industry. He has argued that membership of the EMS imposes an unacceptable limit on French freedom of action and is pushing the country too far in the direction of policies pursued by the previous Prime Minister, M. Raymond Barre.

Some might suggest the Mitterrand Government has only itself to blame for its troubles and that the best thing for France and the rest of the world would be for the unrest in the country to force early elections leading to a return of a government of the right. The Socialist Government, however, was democratically elected with a clear majority. For France's trading partners what matters is not that the left should be brought down prematurely but that it should reconcile its socialist aspirations with the realities of the world economy.

The Mitterrand Government made several had mistakes, not least in allowing public spending (blatantly in excess of the nationalised industries) to get out of control. An attempt is now being made to correct these mistakes and it is not in the interest of France's allies to make the task any more difficult. If present policies fail there is a risk either of a retreat into protectionism or of political disorder, arising from frustration and impotence on the left.

**Aspirations**  
If Socialist France is to take account of world economic interdependence in its domestic policies then other industrial countries must do the same. The dismissive reaction of Mr. Donald Regan, the U.S. Treasury Secretary, to the report on exchange rate intervention was seen in France as another sign of U.S. indifference to the impact of its internal policies on the rest of the world. It would be wrong for France to blame its troubles on the strength of the dollar or to seek salvation in international monetary reform.

France's allies, however, by their attitudes and behaviour must not encourage the isolationist tendencies which still exist in the Mitterrand Administration. That is one reason a constructive outcome to the Williamsburg summit is so important.

## Air fares and competition

THE CASE for deregulation in civil aviation is apparent to anyone who uses the larger routes out of New York and keeps an eye on the cost. According to a report published by the British Civil Aviation Authority last week the fare will come to a mere third of the cost of the cheapest fare for routes of comparable distance from London and it also argues that only part of the significantly higher running costs of European scheduled airlines can be explained by the differences in operating environment between the U.S. and Western Europe.

These assertions are, however, culled selectively from a report whose comparison of U.S. and European fares does not cast doubt on the arguments for an "open sky" free-for-all to encourage rapid steps in that direction. In seeking to establish what lessons can be drawn from the American experience of deregulation the Civil Aviation Authority warns against the assumption that fares on the New York-Los Angeles route tell the whole story.

**Variety**  
Few would deny that deregulation has had positive results. Since the U.S. experiment began, the consumer has enjoyed a much wider range of fares on most American routes. Competition has powerfully influenced the level of fares, particularly where new entrants have come into the market, and productivity has soared.

The routes where fares have fallen in real terms since deregulation are, however, the big ones that are served by several airlines including such aggressive new entrants as People Express. And while comparisons are difficult because of the enormous variety of fares, differing availability of seats, and different market structures—charter flights play a less important part in the U.S. market, for example—there seems little reason to doubt the broad assertion that typical fares on smaller routes have risen faster than costs in the new environment.

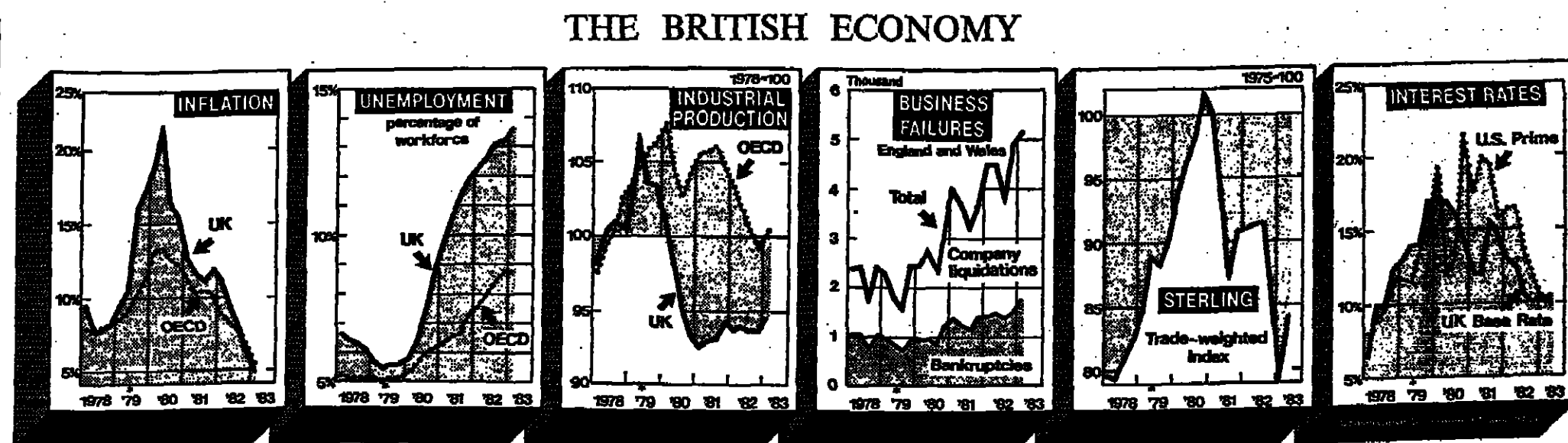
Here, where competition is weak, the report estimates that fares are only 10-15 per cent less than the lowest comparable fare from London for the same distance, on the basis of recent exchange rates. Nor is this just a question of the free market imposing a penalty for remote-

ness. Routes which are very dense by European standards, such as Pittsburgh-Philadelphia, apparently attract high fares. Several small operators have recently gone to the wall, but among the larger airlines only Braniff has foundered. While others are illiquid and in many cases making big losses, the depth of the banking crisis has encouraged bankers to keep their clients afloat through re-scheduling in order to avoid the erosion of reserves that would come from increased bad debt provisions.

**Losses**  
In other words, the market does not yet reflect the underlying financial consequences of the tooth and nail competition that followed deregulation. A more extensive shake-out is probably inevitable and when it comes the airlines will rise, just as fares out of Dallas soared when Braniff was grounded. A straightforward upturn in traffic, prompted by economic recovery, could similarly put upward pressure on prices in the absence of a regulatory ceiling.

None of this invalidates the case for deregulation. Part of the purpose of the experiment was to bring capacity more into line with demand and to eliminate cross-subsidisation. In Britain, the Conservative desire for the privatisation of British Airways should, at the very least, prompt fresh thinking about the role of the country's leading international carrier in the domestic market. However, both geography and subsidised alternative transport make Britain a less plausible beneficiary of deregulation than the U.S. Even with regulation, British airlines scored an overall loss on their domestic operations of £50m in 1981.

In Western Europe moves towards deregulation are complicated by the lack of a common political framework and by the determination of governments to protect their national airlines. A greater transparency of subsidies would be helpful but the urgent need is to make it easier for new entrants with lower costs to challenge the established operators. The pace of liberalisation is bound to be slower than in the U.S. but it should not be deterred by those who have vested interests to protect.



## The impact of Tory monetarism

By Max Wilkinson, Economics Correspondent

THE case for the prosecution is stark and simple: the Conservative Government which won power four years ago with the slogan "Labour isn't working" has presided since over the steepest rise in British unemployment since the 1930s.

Moreover, the prosecution argues, an administration which started its term with monetary discipline as the cornerstone of its anti-inflation policy has failed in three years out of four to meet the targets which it set itself for the growth of the money supply.

By June 9 voters will have made up their minds about the last four years. Their verdict is likely to depend crucially on whether they think the 1.7m rise in unemployment—to over 3m—was a price the country needed to pay in return for a sharp drop in the inflation rate.

The party machine will provide them with a barrage of statistics and argument on this subject as the campaign gets under way. But much of this electioneering material is more likely to hinder a balanced assessment than to help it. It is because the record—summarised in the graphs above—needs to be set carefully against the enormous stresses on the world economy during the period.

The prosecution argues that the recession is not by itself an adequate explanation of the scale of redundancies and lost output in the UK since 1979, especially as it did not reach its trough until 1982, almost three years later.

Ministers, so this argument goes, started with a much too simple faith in the efficacy of controlling a single money variable, sterling M3 (cash and bank deposits) and this led the government into two errors. First it badly under-estimated the inflationary effects of raising Value Added Tax to 15 per cent in 1979. Second, the following year, it was misled by the rise in sterling M3 and so failed to appreciate the severity of its squeeze on business.

Certainly there is strong evidence that back in 1979, when the Government was measuring out its anti-inflation medicine, it had little idea that unemployment would rise as fast as it has done.

Sir Douglas Wass, who retired this Easter as Permanent Secretary at the Treasury, said in a recent interview with the FT that the shake-out of labour in 1980 took the Treasury by surprise. "This was a genuine failure on our part to predict the response of the financial sector to the very strict financial squeeze..." he said.

The exceptionally sharp squeeze reflected fears of runaway inflation in the wake of the oil price shock of 1979. When the Government came to office on May 4, prices were already on a rising trend, with inflation at 10 per cent compared with 8 per cent the previous autumn.

With the oil price increase aimed to raise domestic costs—and with both parties pledged to honour the Clegg Commission's 30 per cent pay awards for certain public sector workers—it was already clear that inflation was set to go up steeply.

In his first Budget, just after the election, Sir Geoffrey Howe, the Chancellor, chose this moment to give prices a 4 per cent upward push by his increase in VAT—a measure designed to balance the effect of his cuts in income tax.

One outspoken critic of this move at the time was Mr. Terry Burns, now the Treasury's Chief Economic Adviser, but still head of the London Business School's Centre for Economic Forecasting.

In a joint article with Professor Alan Budd, his successor at the school, he warned clearly that the VAT increase could lead to greater unemployment if unions raised the bidding in the wage round to restore members' earning power.

This article, which now has a prophetic ring, predicted that the system would come back to equilibrium, but only after a "painful process" of unemployment, accompanied by strains on the company sector and the financial markets.

It said: "The Government has created severe problems for itself by pursuing a policy needed to reduce the Public Sector Borrowing Requirement... with a large switch from direct to indirect taxation."

By the end of the year (1979) Professor Burns had been pulled out of the Business

School to head the Treasury's economic service, and the school's plea for a carefully thought out medium term financial policy had been accepted. During the next two years the Government shifted to a more flexible and pragmatic interpretation of monetarism, with more attention paid to the exchange rate and a range of money supply indicators.

However, by 1980 industry was reeling under the double impact of a base lending rate which reached 17 per cent in the autumn of 1979 and a 20 per cent appreciation of sterling at the beginning of 1980.

Professor Budd, who remains a supporter of the Government's general strategy in spite of

which would otherwise have reached horrific levels because of the drain of unemployment benefits.

There was also a feeling that the shake-out of labour, however painful, was bringing ultimate benefits to industry. Profitability was at an historic low level, redundancies were being announced at the rate of about 44,000 per month, three times the rate in 1979, and there was little hope of a pick up in orders.

Many senior Conservatives believed this was the time to give some help to industry with a mildly restorative Budget, but rather than to Government policy. The events of 1979 were reversed.

In the autumn of last year sterling fell sharply again and the currency was not defended very strongly. The inflation rate had by then fallen much lower than had been expected, partly because of the weakening of world commodity prices.

For much of industry the combination of low inflation and the improvement in profitability resulting from the latest fall in sterling seemed to point to a significantly brighter future. Profits have revived markedly and the latest industrial surveys suggest at least a modest pick up in orders. Yet the rise in unemployment continued.

When the election was called last week the crude figures (up to the latest date) for the four-year period showed:  
● Unemployment had risen by 1.7m from 1.3m to 3.02m;  
● Prices had risen by 51.8 per cent, making an average inflation rate of 11.5 per cent in the Thatcher period compared with an average of 15.4 per cent under the previous Labour government;

● Earnings had risen by 63 per cent, equivalent to an average annual rate of 14 per cent;  
● Industrial production had fallen by 9.9 per cent;  
● Sterling was little changed over the period, with its trade-weighted index against a basket of currencies 2 per cent below its value when Mrs Thatcher came to power.

Finally, the statistics of the Conservative term need to be seen against the long term difficulties of the British economy, with its notoriously inflexible labour practices and low overall productivity which probably

GROWTH OF STERLING M3					
annual percentage rise					
	1979	1980	1981	1982	1983*
Target range	8-12	7-11	6-10	8-12	7-11
Result	13.5	16.3	14.7	10.3	14

\* First four months at annual rate.

some harsh criticisms, says "The mistake in 1980 was not to recognise that monetary policy was too tight, to see that the pound had risen to an excessive level and to take action to bring it down."

However, with average earnings rising at an annual rate of 18 per cent in 1980, the Government was in no mood to relax its hold.

Sterling continued to rise until the beginning of 1981, partly because of the financial squeeze, which raised interest rates and sucked in foreign capital and partly because of a strengthening balance of payments as North Sea oil came on stream.

But by the early spring of 1981, two years after it came into office, the tide began to turn somewhat in the Government's favour. North Sea oil and the depressed state of imports were pushing the balance towards an unprecedented surplus of £20m for the year, yet sterling was falling from its uncomfortably high level, inflation was coming down and UK interest rates were also falling.

The build up of North Sea oil revenues was also helping to contain government borrowing, which would otherwise have

represented a large amount of unemployment. In the cold winds of the past two years many of these practices were "shaken-out" with the result that the so-called "natural" rate of unemployment is thought to be far higher than it was a decade ago. Professor Budd believes unemployment might be 1.2m to 2m even when industry picks up to "full stretch" again.

He thinks the underlying rate of inflation has been reduced from 14 per cent to 6 per cent at a "cost" of crudely, of 200,000 jobs per percentage point. He cautions that the full cost is not yet known. It will be very different if 1.2m "extra" unemployed have to stay out of work indefinitely in order to keep inflation at present levels.

For the next few years the Business School, along with most other forecasters, expects unemployment to remain at about present levels.

In spite of his criticisms of past errors, he believes that further period of tight financial policies is needed, and this seems broadly the view of other Governments, including those of West Germany, the U.S. and Japan.

A final assessment of the past four years' economic management has to take into account the more intangible question of whether Mrs Thatcher's Government has started to make a fundamental change, not only in inflationary expectations but also in attitudes towards competitiveness and productivity.

Even Mrs Thatcher's critics concede that the shake-out of labour did lead to a remarkable rise in productivity, which was strongest in 1981, and managers have since talked of a change in flexibility at work and in bargaining attitudes. The unanswered question throughout has been how far this is simply a response to bad times, and how far to the knowledge that the Government was no longer willing to try to shelter the economy from market realities.

Have we broken through, or will we go back to the old ways? We will discover the answer only when we enjoy a recovery which lives up to its promise. The Tories have endured many disappointments, but do now have the benefit of the doubt.

## Men &amp; Matters

## Wool futures

Men's chairs is the fashionable game in the textiles world at the moment.

The British Textile Confederation got a new president in ICI Fibres' John Lister last week. Now the Textile Institute has appointed John McPhee, deputy managing director of the International Wool Secretariat, as its new president.

McPhee, aged 52, might be described as a quiet Australian—none of the razzamatazz often associated with his countrymen for him. A graduate of Melbourne and Oxford, where he took a doctorate, he has worked in Britain with the IWS for the past 17 years. One of his successes has been to develop a process making wool products fully machine washable.

As head of the Manchester-based institute he will be expected to do a lot of travelling. The institute has members in more than 90 countries. "I think they chose me" he joked, "because I already travel a lot. And this is a cheap way for them to get their president to meet the membership."

One of his first tasks has been to launch a scheme for international patrons which will increase the institute's income substantially. Much more fundraising is likely during his two-year presidency.

I predict that we shall be hearing more of McPhee quite soon. At the end of the year the managing director of the IWS, Gerry Laxter, is retiring. The betting in Wool House, the IWS's headquarters in Carlton Gardens, London, is that the wool masters who control the purse strings will look no further than McPhee for the top spot.

**Road to Damascus**  
Having been a hot issue in the 1970s the Arab boycott has dropped out of the headlines in recent years.

So there has been surprise in the U.S. at the news that the Damascus-based central boycott office of the league of Arab states has placed the leading Wall Street investment bank Salomon Brothers on its boycott list.

Although Salomon tells my man in New York that it does not understand the reasons for the move it is generally assumed that the boycott office has been spurred into action by Salomon Brothers' merger with Phillips Brothers, the international trading group, more than a year ago. Phillips Brothers is thought to have been on the list for some time.

John Gutfreund, Salomon's chairman and chief executive, is understandably angry. "As an American firm we resent this action," he says. "Participation in this boycott is illegal under U.S. law."

What is unusual, however, is that he has been prepared to condemn the move in public. In the past most firms that have been subjected to the attentions of the Arab boycott office have tended to be almost paranoically shy about what has happened.

The immediate explanation is that rumours about the boycott list, is an example of a company which has raised money directly in Saudi Arabia. The boycott decision is not irrevocable as has been demonstrated by both Barclays Bank and S. G. Warburg which have been boycotted at one time or another but are no longer on the list today.

**Election rocks**  
Mrs Thatcher's June election decision has been bad news for those rocky offshore havens the Channel Islands and the Isle of Man.



"It's only our Law students protesting—wait until the Economics lot start."

including Phillips Brothers have done good business with Arab clients over the years in spite of being on the boycott list.

AT and T, which is also believed to be on the boycott list, is an example of a company which has raised money directly in Saudi Arabia.

The boycott decision is not irrevocable as has been demonstrated by both Barclays Bank and S. G. Warburg which have been boycotted at one time or another but are no longer on the list today.

The islands are tax havens rather than wreckers' retreats these days. They had expected to see the end of a much-diluted provision of the 1975 Finance Act which deemed emigrants on to their small

acres to be permanently domiciled in the UK for capital transfer tax purposes.

The islands' authorities have always regarded this arrangement as highly discriminatory. Britons, emigrating to other parts of the world are left off the CTT hook after three years.

The islands won two concessions in 1977. One exempted them from the deemed-domicile rule home-going Channel Islanders and Manxmen who had made their fortunes on the mainland. The other excluded in all cases assets which were accumulated after leaving the UK.

The really important concession desired by the Islanders—the abolition of the restrictive rule itself—was to be made in this year's Finance Act.

As luck would have it that was one of the sections of the Finance Bill to be dropped in last-minute bargaining between the Government and the Opposition before the Parliament ended.

Now the offshore islands see little hope of having their concession—unless the Tories get back.

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## Uganda Asians

## The long road back

By Michael Holman, recently in Uganda

THEY HAVE come from Manchester and Madras, London and Delhi, briefcases in hand.

They spend their time revisiting the businesses and homes that were once theirs, and gather at the end of the day around a pot of coffee on the verandah of Kampala's Speke Hotel.

They are returning Uganda Asians, resilient, resourceful but wary, an advance guard testing the ground opened up by the Expropriated Properties Act of February this year. Some 60,000 were expelled by Idi Amin in 1972 (40,000 were British passport holders), and their properties either nationalised or handed over to black Ugandans.

The Speke Hotel itself is one example of what can happen. Its former owner negotiated its return prior to the Act and the establishment now flourishes. Visiting businessmen happily pay \$45 a night for a modest room, unlikely to have regular water, in what is nevertheless the best hotel in town.

Whether claims under the new Act will go smoothly is debatable, for the political ramifications and financial complexities of the vaguely-worded legislation are considerable.

Perhaps it is just as well that it leaves considerable discretion in the hands of the Minister of Finance—a portfolio held by President Milton Obote himself. Any lesser person might be unable to put it into effect. For, despite the arbitrary brutality and adverse impact on the economy, Amin's expulsion of the Asians was popular among black Ugandans. Today the prospect of their return, albeit probably in small numbers, is not greeted with any enthusiasm.

At present, the former owners of any property or business may apply for repossession of their assets, if they are prepared to occupy the property or run the business for the next five years. Should the application be for a nationalised business which the Government wishes to retain, joint venture terms may be negotiated. Alternatively, the minister may issue a certificate which will authorise the former owner to repossess the property. Claims can be sent to offices in London, New Delhi, Ottawa and Nairobi. Claimants now have only



October 1972: Kenyan officials check the papers of Asians expelled from neighbouring Uganda

until Saturday to register for repossession of their properties, but if they are merely seeking compensation, there is no immediate deadline.

Apart from attempting to make redress, the Act has considerable economic implications. On the one hand, as long as there is doubt about the ownership of many commercial and industrial properties, injections of rehabilitation funds—whether from aid donors or commercial lenders—will be held up. On the other, the Ugandan Asian community could provide managerial skills which are in desperately short supply.

Both the retail sector and manufacturing industry were once dominated by Asians, especially such areas as agricultural processing and textiles. It is unlikely they will recover their old trading role but shortage of their skills in other sectors is proving a serious drag on the pace of Uganda's economic recovery.

Most observers, however, believe that comparatively few Asians will return. "Almost all of those who left will file claims," said one Asian who had returned in the hope of recovering his business. "But I doubt whether more than 1,000, at the very most, will either want, or be able, to come back here because of the complications."

Although some leading families have negotiated recovery of their business before the introduction of the Act—such as the Madhvani and Mehta groups, who arranged joint venture terms for their extensive interests in plantations and factories—it will be a brave man who attempts to enforce a possession order for a trading store which may have been run by an African for the past few years.

"Unless you have a friendly politician or senior civil servant behind you," said the businessman, "it will be very difficult." Some of the properties have been used as security for loans or mortgages. The Act simply says that the minister "will hold consultations" with the former owner and the bank or financial institution concerned "to try to secure mutually acceptable arrangements." No further guidance is given.

In cases where property is returned, the occupant is entitled to compensation for improvements he may have undertaken. In anticipation, many Asian owners are now settling about "repossessions" which might only be a coat of paint—and are ready to present substantial claims for the compensation the Act allows.

Former owners are entitled to compensation if they do not wish to return to Uganda, or if, for one reason or another, their property is not returned to

them. But the question of valuation remains alarmingly vague: no one seems certain whether it will be calculated at prices operating at the time of nationalisation, or at today's prices.

With claimants being allowed to remit their compensation payments abroad, even in small amounts over a long period? The Act simply says "it shall be paid over such period and in such a manner as the Minister may determine or negotiate."

Asians are asking whether they will be allowed to use the weekly currency auction organised by the Bank of Uganda, in which the Uganda shilling floats freely against the U.S. dollar (at around \$1=270 shillings). No one believes they would be allowed to remit their funds at the exchange rate (\$1=125 shillings), reserved for priority imports. Yet few believe the Uganda Government is in a position to allow such a drain on its precarious foreign exchange resources, at whatever exchange rate.

Most of the 10,000-15,000 Asian families who were expelled have no intention of returning. Africa is far too uncertain, and the majority have successfully settled into new homes and businesses in Britain, Canada and elsewhere. But some argue that there is little to lose should a son, daughter or relative return to Uganda and pursue the family claim.

At this point informal negotiations are taking place before claimants resort to the Act. Thus one returning businessman is offering the occupants of the block of flats he used to own cash inducements to leave. Others will consider offering a partnership to the current owner of the business; some will offer a directorship to a politician or civil servant prepared to lend a hand.

Ugandan Asians who are British citizens have demanded that the British Government play a more active role in pursuing claims. Some 7,500 individuals claim on their behalf, but with little success to date. The Foreign Office in London, and the British High Commission in Kampala, maintain that it is now strictly a matter between the claimants and the Ugandan Government.

THE SURVEY of international opinion sponsored by the Atlantic Institute in Paris and carried out by the Louis Harris Organisation across nine countries last month must be one of the most comprehensive ever conducted.

It concentrated on economic matters, partly because of the imminence of the economic summit meeting in Williamsburg at the end of this month, but defence was also considered. The FT was one of the backers. Here is a purely personal view of some of its voluminous findings.

Unemployment is now the greatest single issue of concern in all the countries covered except Japan, which was not included in the first Atlantic Institute survey in September last year.

It is of most concern in West Germany where it was stressed by 82 per cent of respondents, up 7 percentage points from September. It is also of rising concern in the U.S. Only 52 per cent of American respondents put it as the main issue, but that was still 10 points up on a few months ago.

Oddly enough, unemployment seems to have abated slightly as an issue in France. Respondents giving it greatest priority numbered 67 per cent, fractionally lower than before.

Inflation is seen of declining importance, though it is still a major issue in France (48 per cent) and Italy (43 per cent). The belief that poor political leadership is itself a cause for concern is at its strongest in the U.S. and has grown steadily in the last few months. It was listed by as many as 89 per cent of American respondents—up by 10 percentage points from last September. By contrast, the figures for France, Germany and Britain were 14, 14 and 17 per cent respectively, all of them a few points down on before.

It should be added that America's decline of confidence in its political leadership does not necessarily mean a retreat from President Reagan. The breakdown of the findings suggests more a lessening of confidence in Congress and the Administration in general, which could be a quite different matter.

On most issues British opinion tends to have more in common with that of the U.S. than with continental Europe. This comes out particularly in attitudes towards the current economic situation.

Only 20 per cent of British respondents and only 10 per cent of Americans agreed that "we are experiencing a severe long-term economic crisis which will require fundamental adjustments and which can only be solved at an international level."

Another British oddity: far

## Unemployment: the biggest issue of concern

By Malcolm Rutherford

Question: Which of the following are your greatest concerns for yourself and your country today?

	France	Germany	UK	Norway	Spain	Holland	Italy	U.S.	Japan
The threat of war	34	16	26	31	48	33	44	25	36
The energy crisis	15	10	6	3	16	9	23	18	27
Inflation	48	21	22	12	26	12	43	35	33
Inadequate defence	6	4	8	4	5	7	6	12	10
Unemployment	70	82	67	63	87	74	67	52	23
Social injustice	24	28	13	11	26	19	27	22	24
Crime	32	33	37	12	22	53	61	41	36
Nuclear weapons	19	42	32	42	29	47	33	29	28
Excessive government spending	21	34	10	8	9	25	21	33	25
Poor political leadership	14	14	17	6	5	24	27	36	20
Other or no answer/opinion	1	4	1	1	2	3	3	3	9

The percentages do not add up to 100 because people could name more than one cause for concern.

more Britons (30 per cent) than anyone else, including the Americans (18 per cent), thought that solutions to the economic crisis could be found at home.

The British and Americans agreed again (27 per cent and 62 per cent respectively) with the fairly bland proposition that "we are experiencing a period of economic difficulty but growth should resume over the next two years if appropriate steps are taken." Only 7 per cent of the Japanese were of that opinion, and only 20 per cent of the French and Germans.

Britain and the U.S. came together once more on the question of trade with the Soviet Union and the Eastern bloc. They were the only two countries with the majority against trying to increase it as one way of seeking to resolve present economic problems.

The American figure here, however, was intriguing. It divided 46 per cent in favour of increasing East-West trade and 49 per cent against. Most other countries had a large number of "not sure's."

In Germany this was 23 per cent in favour, 21 per cent against and in Japan 44 per cent. Governments which want to raise defence spending, or even to maintain it, face a fairly hard task in the light of what is revealed here about public opinion. Respondents were asked whether they would like a reduction in defence expenditure so that some of the money

might be used for the social services, health and education. There was a majority in favour in every country.

In President Mitterrand's France it was 81 per cent. In President Reagan's America it was 69 per cent and in Mrs Thatcher's Britain 58 per cent. Norway has become more stalwart: 41 per cent opposed the proposition.

There is a considerable readiness to make sacrifices in favour of the creation of new jobs, but the preferred approach differs from country to country. In Britain 44 per cent opted for early retirements, accepting a slightly lower pension. Germany (38 per cent) and Spain (47 per cent) were broadly in the same division, but for the U.S. the figure was only 32 per cent and for Japan 11 per cent.

Other preferred options included an incomes policy—"no pay rises in the next two years"—and shorter working hours with proportionally less pay.

Both had quite widespread support across the sample. There appears to be almost no sympathy for trying to create new jobs by a reduction in health care and retirement benefits. Only in the U.S. and Japan did support for that rise to double figures—13 per cent in both cases. In Britain and Germany it was 4 per cent.

Japan had easily the largest number of "not sure's" in every category. Whether that is because the Japanese are not attuned to Western opinion polls, prefer to sit on the

fence, or have some inscrutable wisdom of their own is an open question. But it is an interesting finding in itself.

There were lots of contradictions. For example, apparent support, especially in Britain and the U.S., for import controls to protect national producers, but, in answer to another question, a majority belief in the need "progressively to reduce trade restrictions and encourage free international trade."

Again, concern about the "threat of war" seems to have declined quite sharply in France and Germany in the last few months, but concern about nuclear weapons in Germany and Italy has gone up even more. A different kind of war, perhaps.

One or two notes about Britain since it is, after all, facing a General Election. Far more men than women are concerned about poor political leadership—22 per cent against 12 per cent. Reading between the lines, Mrs Thatcher's policies seem to come out rather well. But more British women than men are concerned about the threat of war—30 per cent against 22 per cent.

Make of it what you will. It is probably the best guide available until international polling is further refined and there are more bases for comparison.

Copies of the poll may be obtained, for a fee, from the Atlantic Institute for International Affairs, 120, Rue de Longchamp, 75116 Paris.

## Letters to the Editor

## Ravenscraig and U.S. Steel—a give away

From Dr Jeremy Bray  
Sir,—Following together statements made by Mr Ian MacGregor to Ravenscraig shop stewards, and by Mr David Roderick, chairman of U.S. Steel, to the U.S. Congress and to his shareholders, it appears that they are proposing that British Steel Corporation should invest \$100m cash in a joint venture. This and the first \$250m in profits would be used to refurbish the Fairless works and other outdated U.S. steel plants up to standards now achieved at Ravenscraig. During a transitional period of five or 10 years the Ravenscraig and Gartcosh strip mills would be closed, and Ravenscraig would supply higher grade continuous cast slabs to U.S. Steel, than would be available to equivalent tonnages to British Steel's customers. At the end of the transition, Ravenscraig steel-making, benefit of its finishing mills, would itself be closed.

In testimony to Congress, Mr Roderick estimated the cost of rebuilding Fairless works as \$1.2bn, which is, therefore, a measure of the replacement cost of Ravenscraig. The net effect of this deal would be to transfer a modern integrated steelworks across the Atlantic. BSC would gain a share in a U.S. asset for which it paid something over \$200m in cash and profits retained, and lose an asset worth \$1.2bn at Ravenscraig. No wonder Mr Roderick is enthusiastic. It is a give away.

Arithmetic about the Maestro  
From the Director, Sales and Marketing, Austin Rover Group  
Sir,—Mr Fisher's letter (May 12) contained some interesting arithmetic about BL and as a consequence placed a hefty price tag on the cost of an Austin Maestro. The taxpayer has certainly been patient and generous towards the last remaining UK owned volume motor manufacturer and we believe we are now repaying that patience with new models, like Maestro, which will help the recovery of the industry as a whole. It is a fact that taxpayers throughout Europe, too, are supporting their own motor industries in various direct and indirect ways.

To suggest that part of the price of support has been borne out by the facts. The major factor in price differentials between UK and Europe has been the relative movements of European currencies. At the moment European

The proposal is based on Mr MacGregor's extreme and unfounded pessimism about the prospect for British manufacturing industry. The implication of his estimates for steel demand in 1985-86 is that British industrial output will then be lower than in the trough at the bottom of the recession in 1982. On January 26 Mr Patrick Jenkin said to the Industry and Trade Select Committee: "On the early closure of Ravenscraig BSC estimated that at present levels of steel demand they would save about £100m a year, but if their output of steel increased significantly from present levels the extra costs of keeping all five plants open would be very much lower."

BSC steel output in fact increased by 46 per cent in the first quarter of 1983 on the previous quarter, and has increased further since. Orders for strip product deliveries to consumers and stockholders in the second quarter up to June, now stand at 77,000 tonnes (or an annual rate of 400,000 tonnes of liquid steel equivalent) above the annual operating plan revised in the first quarter. Ravenscraig, Port Talbot and Llanwern have now been asked to produce at their full capacity up to August, contributing fully to the prospect that BSC will be back to breaking even in this financial year, with economic recovery scarcely under way.

Currencies are rising at about double the rate of UK prices, while our own prices have risen at below UK inflation for two years. Incidentally there is a Rover diesel in the Austin Rover group range and if Mr Fisher is interested I'd be delighted to arrange a demonstration drive! Trevor H. Taylor, Austin Rover Group, Coaley, Coventry.

Insider dealing and the code  
From Mr J. Mason  
Sir,—I am concerned to note that in certain circumstances it is in order for a director to deal in shares of his own company before results are announced, but when he is probably aware of what they will be.

My attention was drawn to this recently when I noticed that a director of a quoted company purchased shares in his company within days of the financial year end. I considered this to be insider deal-

ing, but on referring to the "Yellow Book" (Admission of Securities to Listing—issued by authority of the Stock Exchange) I find it does not contravene the code. Requirements of the code are: to issue reports and accounts within six months of the period end, and not to deal in the shares during the two months preceding the preliminary announcement of the company's results.

The code seems to favour the insufficient. The directors of those companies that are slow in announcing results have more opportunity to act on their "insider" knowledge—the fact that results are not announced does not necessarily mean that the directors do not have a fair idea of what they will be. I would advocate a change in the code to the following: to issue reports and accounts within four months of the period end and dealings should not normally take place between one month before the end of a financial period and the date of the announcement. J. C. Mason, 8, St Leonards Road, Chessom Bois, Bucks.

A practical plan for currencies  
From the Prime Minister of New Zealand  
Sir,—I have read, as a visitor, "A practical plan for currencies" (London May 12). As one of the more senior, and therefore more frustrated, governors of the International Monetary Fund I say "hear hear." When the newspapers start getting it right there is still hope.

Settlements on the West Bank  
From Mr Z. Shoval  
Sir,—Further to your editorial, "Syria's role in Lebanon" (May 10), may I point out that, contrary to your statement on the subject, the late President Sadat never claimed that he had been misled or that he had been promised by the Israeli delegation at Camp David that there would be a freeze on new settlements in the "West Bank"—and he himself confirmed this at his Press conference after the conclusion of the talks.

I cannot say, of course, what ex-President Sadat may have given the Egyptian leader to understand—but I can say that in a briefing which I received from the late Moshe Dayan immediately upon returning to Washington from Camp David, the latter told me that the Israeli delegation (or rather Mr Begin himself) had specifically agreed only to a "freeze" for the duration of three months. I believe this is borne out also by the records. The above "freeze" was, in fact, strictly adhered to. Zalman Shoval, 78, Shoret Street, Tel-Aviv, Israel.

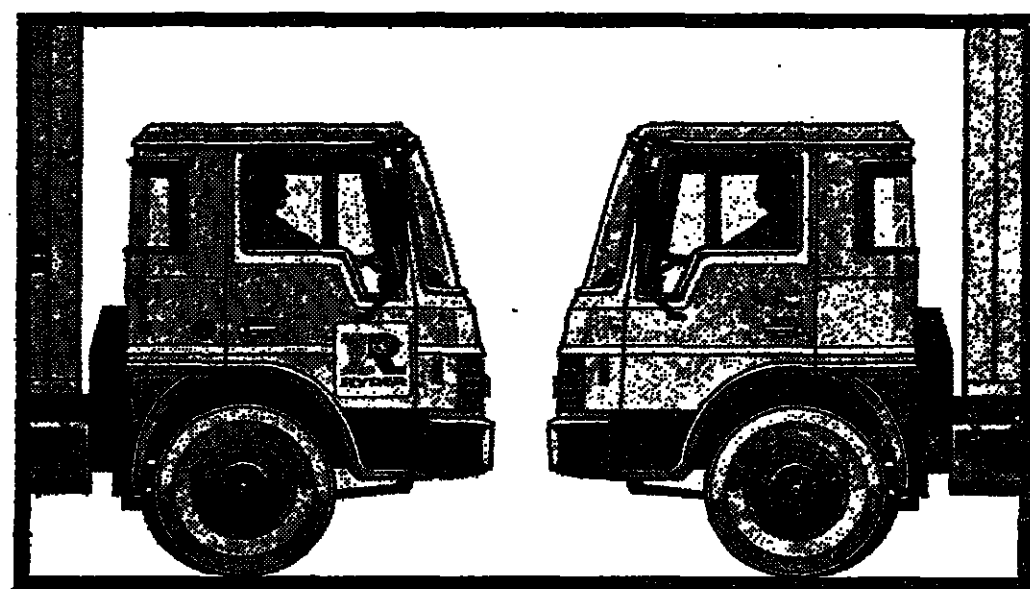
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Preventing misuse of credit cards  
From Mrs M. Rosenberg  
Sir,—My simple advice to prevent misuse of credit-cards on loss, theft or forgery: at the time of presentation request the presenter to state his/her birth-date. This should tally with the records of the bank or other issuers. M. Rosenberg, 77, New Tree Court, Bridge Lane, NW11



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## MITTERRAND ANXIOUS TO CORRECT GROWING TRADE DEFICIT WITH GERMANY

## Paris seeks new ties with Bonn

BY DAVID MARSH IN PARIS

FRANCE will be trying to win support from West Germany for plans to boost economic growth and stabilise exchange rates during the two-day summit meeting between the two countries which starts in Paris today.

The French Government, facing economic stagnation at home this year, is particularly keen to see recovery in its most important trading partner to reduce the still mounting trade deficit with Germany.

The growing trade imbalance - FFf 30bn last year, with a further French deficit of FFf 10.4bn in the first quarter of 1983 - will be the main grievance at the meeting, the latest in a 20-year series of six-monthly talks.

President François Mitterrand and Herr Helmut Kohl, the German Chancellor, are expected to have

several hours of conversations. With about 10 ministers from each side present, the talks will also help to explore common ground on economic and strategic issues before the seven-nation summit in Williamsburg this month and the European heads of government meeting in June.

The two countries already show remarkable convergence on stationing strategic nuclear weapons in Europe. As emphasised in President Mitterrand's address to the Bundestag in January, France is moving in its defence policy away from Gaullist isolation towards greater collaboration with Germany.

Less unanimity is likely over the president's call last week for a new Bretton Woods system of stabilised exchange rates.

man Economics Minister, voiced scepticism about the idea last week. He said that for the president to place the scheme on the agenda of the Williamsburg summit seemed to be emphasising the importance of the gathering. That seemed at odds with the designs of M. Jacques Delors, who with his call for another meeting of the Organisation for Economic Co-operation and Development (OECD) for the autumn appeared to be downplaying the role of Williamsburg.

The issue of protectionism, existing and threatened, is certain to be present at the Franco-German talks. French companies claim that German technical norms form an important barrier to exports, while the Bonn government fears French retaliation to the growing trade deficit.

Foreign Trade Minister, last week limited at direct action. She told the OECD meeting in Paris that France could not accept structural disequilibrium in trade with "certain" countries. "Limited, negotiated and temporary" moves to reduce such imbalances - including the recent restrictions on Japanese video-recorder imports - might sometimes be useful to curb "disorder" in world trade, she said.

Apart from general economic issues, the two countries will also be exploring a range of possible joint industrial projects. They include production of an anti-tank helicopter, the plan for a new 150-seater Airbus, the A320; development of a French-style high-speed train in Germany; and space, telecommunications and nuclear energy projects.

## Thatcher concern in opinion poll lead

By John Hunt in London

THE FIRST full week of campaigning in the British general election begins today, the main question being which party would benefit from any erosion of the Conservatives' large lead in the opinion polls. That averages nearly 16 per cent.

Mr Michael Foot, leader of the Labour Party, the main opposition to the Conservative Government, confidently predicted yesterday that the Tories lead would collapse as the campaign got under way for the election on June 9.

He admitted that the polls were "not very agreeable" but argued that the "spirit of Darlington" - a recent by-election where moderate candidates pulled Labour ahead - would steadily increase Labour's share of the vote.

The Conservatives are genuinely worried that their big lead will encourage complacency and damage their chances in marginal parliamentary seats. Privately, they concede that the lead is bound to shrink during the campaign.

Their fear is that, as their support declines, the votes could go to the Social Democrat/Liberal Alliance rather than to Labour, whose showing has been remarkably poor for an official opposition.

Private soundings that the Social Democrats have commissioned from Gallup and Audience Selection suggest that there may be grounds for these fears.

They show that the Alliance is predominantly the second choice for Conservative and Labour voters. The Alliance, formed since the last general election, had 29 GDP seats and 13 Liberal in the last 635-seat Parliament, which was dissolved on Friday. The Conservatives had 334 MPs and Labour 238.

The Social Democrat hope is that many voters will come over to the Alliance as they are frightened off by extremism in the Labour party and right-wing policies of the Conservatives.

Their soundings also show that the issues in the Alliance programme - moderate inflation, industrial democracy, trade-union reform - are extremely popular with the electorate. The difficulty is that they have not yet been connected with the Alliance in the public mind.

The Alliance is confident that it will win votes when Mr David Steel, the Liberal leader, appears in their election broadcasts. In a poll conducted by Gallup for the Sunday Telegraph, a remarkable 28 per cent said that their support for him was increased by his television appearances. This was well ahead of any other figure, including Mr Roy Jenkins, the SDP leader.

There was little comfort for the Alliance, however, in a Harris poll for the Sunday Telegraph yesterday. This suggested that the Alliance was losing ground to Labour.

The poll also showed that the Conservative lead in marginal constituencies is much smaller than that shown in national polls.

It indicated that their lead over Labour was only 6 per cent in marginal seats that could determine the outcome of the election.

Mr Foot, on BBC's World This Week broadcast yesterday, made clear that Labour would concentrate on unemployment as the main domestic issue. He predicted that it could rise to 5m under another Conservative Government.

The impact of Mrs Thatcher's economic policies, Page 16; election round-up, Page 8

## Fitch board seeks mandate to decide bids

By William Dawkins in London

AFTER A weekend of hectic bid activity, Fitch Lovell, the UK food manufacturer and retailer, has asked shareholders to allow the board to use its discretion at an extraordinary general meeting on Friday in deciding on rival offers for the group's Key Markets supermarket chain.

Linford Holdings, which takes in the Gateway, Dee and Carrefour food retailing operations, bid £37.8m (£39m) for the chain last week in an effort to oust Safeway Food Stores, which agreed last month to buy Key Markets for £24.8m, subject to Fitch shareholders' approval. Safeway, the British arm of the U.S. supermarket chain, then matched Linford's offer on Saturday, after which Linford announced that it would raise its bid to £40.8m today.

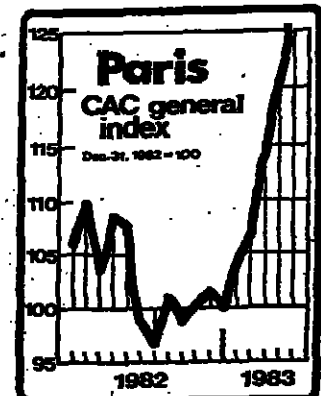
Linford tried to buy the whole of the Fitch group for about £75m last autumn, but its offer lapsed pending an investigation by the Monopolies and Mergers Commission, which gave it clearance last week.

Other UK company news, Page 21

## THE LEX COLUMN

## Fair sets the wind for the bourse

The stream of poor results from French industry's household names has done little to dampen enthusiasm on the Paris Bourse. Since January, the CAC general index has shot up by 30 per cent to its present level of just over 125. Even some of the more vulnerable stocks have been swept up in the general euphoria: Thomson CSF, which has been patently struggling with its radiography and telecommunications divisions, had moved up exactly in line with the market to FFf 187 before announcing its whopping FFf 2.3bn loss for 1982.



Many of the companies reporting are admittedly no longer quoted. Nationalisation has removed PUK (losses of FFf 3bn), Rhône-Poulenc (-FFf 840m), the Thomson Brandt parent of Thomson CSF (-FFf 2.2bn), and CIL Honeywell Bull (-FFf 1.3bn). The new managements of these companies have little incentive to boost profits at a time when they are presenting the beguiling bow to finance the government's ambitious reorganisation plans. Indeed, many are complaining about undercapitalisation and have thrown extra provisions into their 1982 figures.

Nevertheless, these groups are supposed to represent the commanding heights of the French economy, and both Peugeot and Michelin, the remaining two private companies that are of similar size, are in an identical plight - they ran up losses of around FFf 2.1bn and FFf 4bn respectively last year.

The bourse has chosen to ignore these portents of gloom from the smokestack industries precisely because they come from that part of the economy: Michelin, for example, is just about as near as it is possible for a French investor to get to a U.S. recovery stock - and the share price has consequently risen by almost 20 per cent. Moreover, away from the heavy-industry disaster areas, many of the medium-size, faster growing businesses of the last decade have shown remarkable resilience to the bitterly con-

tested on-costs of the 30-hour week and the fifth week paid holiday. BSN-Gervais Danone emerged last year with a 29 per cent increase in net profits at FFf 574m; others, like L'Oréal, Moët-Hennessy and Carrefour similarly seem to be weathering the storm.

These companies are all in areas such as pharmaceuticals or consumer products that have proved fashionable across the spread of world stock markets this year. France has attracted its share of overseas funds as other markets reached new heights and international investors took account of the government's recent austerity measures. At the same time, there has been no shortage of liquidity at home. The flow of domestic funds into the so-called Moneysic unit trusts has been strong this year, and money which formerly might have gone overseas (now restricted by exchange controls), or into property or gold (no longer bought anonymously), is being channelled towards the bourse.

A lot of this is being soaked up by the expanding bond market, which grew from FFf 110bn in 1981 to FFf 140bn last year and is expected to reach FFf 180bn in 1983. But on the equity market it is hardly surprising that the combination of reduced investment opportunities produced by wholesale nationalisation and

exceptionally strong liquidity has bid up some stocks to extravagant levels: L'Oréal has risen by 72 per cent since the beginning of this year.

These are the ideal circumstances, of course, for the expansion of the equity market which the government has been looking for, and which has recently led to the development of the over-the-counter market and a new form of cumulative preference non-voting shares aimed at family companies. But these are long-term initiatives and, as such, are unlikely to make much immediate impact on the present liquidity pressures.

ED 32

The treatment of pensions has long been a problem for the accountancy profession. Juggling with contributions has often been used as a profits-smoothing device by companies - such as oil companies and banks in the mid-1970s which wanted to depress embarrassingly high earnings. More recently, the appearance of a surplus in the fund could be a very useful earnings booster for a threatened takeover victim. In the past, however, bidders have often found that their nice new subsidiary contained a pension scheme that was a bottomless pit.

The Accounting Standards Committee's new exposure draft ED 32 does not exactly try to blow the whistle on all of this: it does not even require disclosure of key actuarial assumptions, let alone attempt to lay down how pension costs should be measured.

However, given that the starting point is the virtual non-existence of pensions information in the accounts of UK companies, the limited disclosure suggested in ED 32 is a worthwhile step forward. It will allow users of accounts to start asking some pertinent questions, even if they do not necessarily get any answers. But there is a lot further to go than this.

## Kanu ruling council to discuss Moi plot claim

By Michael Holman in Nairobi

KENYA'S political turmoil over President Daniel arap Moi's allegations of a plot against his government is expected to come to a head tomorrow at a specially convened meeting of the governing council of the ruling Kenya African National Union (Kanu).

The council, which includes MPs and Kanu officials, meets rarely. The last occasion was a year ago, when it authorised the creation of a one-party state.

President Moi's allegations, in which he accused a hitherto British involvement, included a reference to "a certain person" behind the plot.

Sir Leonard Allinson, the British High Commissioner, met the President last Friday and is thought to have made clear that Britain was not involved in any anti-government activity. But there has been intense speculation in the local press about the identity of the alleged plotter, said by one Kanu official to be a cabinet member.

Not a day has gone by since President Moi's allegations a week ago without the three daily papers running front-page speculation on the identity of the traitor, variously called a hyena and a snake, and pledges of loyalty to Mr Moi from ministers, MPs and party officials.

The most senior minister who has yet to comment is Mr Charles Njonjo, former Attorney-General and now Minister of Constitutional Affairs. He has been out of the country but returned to Nairobi yesterday morning. Mr Njonjo and the Vice-President, Mr Mwai Kibaki, are the two most powerful politicians after the President and their role will be crucial in the coming days.

Observers here feel that Mr Moi has set in train a process that can end only when he provides further details and names the guilty party.

"It is the moral duty of the government," a local paper said in an editorial at the weekend, "to provide the people with clear and accurate answers now, before that dangerous monster known as rumour-mongering takes a firmer grip."

Emotions are being whipped up to an extraordinary pitch.

Mr Moi himself has not referred to the plot since his original speech.

## Banks near accord on debt plan for Explosivos Rio Tinto

BY DAVID WHITE IN MADRID

AN END is in sight to the long-running negotiations on almost \$1bn of foreign and local currency debt held by the troubled Spanish chemical group, Union Explosivos Rio Tinto (ERT).

A steering committee representing about 125 Spanish and foreign banks has accepted a new plan put forward by the company last week as "an acceptable alternative." Full details of the plan have not yet been officially released.

ERT has been badly hit by diversification into unprofitable areas, and by the peseta's sharp decline against the dollar, which has doubled the value of foreign debt in local-currency terms.

An effective moratorium on repayment of the company's debts has been in force since last October, and in March the banks threw out a debt repayment plan drawn up by ERT.

The new plan, like the first, is based on a concentration of ERT's operations around its core activities of fertilisers, refining and explosives.

The main differences in the new plan are:

- A partial repayment schedule in five years instead of seven;
- Improved interest rates, for creditor banks;
- Negotiations on the problem of the exchange risk on foreign-currency loans, which the company had originally proposed the banks themselves should carry.

The steering committee's approval is made conditional on successful resolution of this problem with the Spanish authorities. The Government has so far held its cards close to its chest as regards aid for the group, making clear it wants ERT to settle its score with its creditors first.

Representatives of several Spanish and U.S. banks have been working closely with ERT on the new plan, which has to be formally approved by creditors. It includes figures showing a total net loss of Pta 41.7bn (\$307m) for last year - 24 per cent of sales - and operating losses in the first quarter of this year of Pta 4.4bn.

The plan involves a five-year schedule for repaying somewhat more than Pta 50m of the total Pta 125.5bn bank debt, the bulk of which would normally have been due this year. Of this, Pta 25m would come from the sale of assets over the next three years.

The interest rates, starting at 7 per cent for this year, will be slightly more than half of what would normally have been due, rising to the full rate in the last year, 1987. In exchange for the difference, creditors would receive redeemable preference shares.

As an alternative formula, creditors would be able to opt to write down their outstanding loans to 70 per cent, receiving full interest and obtaining ordinary shares of the company to make up what they do not get in principal repayments.

The plan is based on the calculation that ERT's core activities will obtain sales of Pta 175bn this year, slightly more than total group sales in 1982, with turnover of the "non-basic" - plastics, pharmaceuticals and property - put at Pta 200bn.

Some 500 jobs are due to be cut at the core companies, currently employing 6,000.

The last stage of negotiations remains delicate, since any one creditor could still pull the rug out from underneath the agreement and force the group to declare suspension of payments, or go into temporary receivership, thereby stretching out the debt settlement issue even further.

The plan also risks meeting strong opposition from ERT unions, who want great leeway for investment in the group and are suspicious of what they perceive as over-generous treatment to the banks.

A meeting is being called in London on Wednesday by Grindlays Bank, which represents British banks on the steering committee.

## UK chemical companies may decline for another 10 years

BY CARLA RAPOPORT IN LONDON

BRITAIN'S petrochemical, fertiliser and inorganic chemical industries face the prospect of permanent decline over the next decade.

The contraction of these sectors is likely to push the entire £18bn (£25bn) UK chemical industry into reverse, offsetting the more buoyant prospects for the UK pharmaceutical and specialty organic chemical sectors.

The result will be fewer jobs and declining output and trade balance, according to a new report prepared for the Chemicals Economic Development Committee following several months of research. The Chemicals EDC, comprising government, labour and chemical industry representatives, reports to Britain's Na-

tional Economic Development Council.

The hard-pressed chemical sector has already cut back its level of employment from 430,000 jobs in the mid-1970s to about 377,000 today.

In petrochemicals, which accounts for nearly a third of Britain's annual chemical sales, the report predicts that growth in European demand will continue to diminish over the next 10 years. That will continue to aggravate the already severe overcapacity throughout the European industry.

Despite commendable efforts by UK petrochemical companies to close uncompetitive plants and reduce costs, the report says that

much more rationalisation in Europe is necessary.

"There is a need for EEC-wide action: for the UK to act in isolation will seriously weaken both the chances of an effective solution and the prospects for the UK industry," the study argues.

That stance will add more fuel to the discussions planned for May 30 in Brussels between the chief executives of Europe's leading chemical companies. The meeting was called after the completion of an independent, industry-wide report on the European petrochemical industry, which apparently makes a strong case for further rationalisation.

## Thatcher to resolve anti-radar missile row

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

MRS Margaret Thatcher, the UK Prime Minister, is to decide this week whether Britain should buy a new British missile which is still on the drawing board in preference to an existing U.S. weapon favoured by the Royal Air Force (RAF).

Mrs Thatcher has been called on to resolve what is being described in Whitehall as a big difference of opinion between the Ministry of Defence (MoD) and the Treasury over

a £200m to £300m (£312m to \$488m) contract for the new missiles.

It is understood that Mr Michael Heseltine, the Defence Secretary, decided last week that the RAF should buy the air-launched anti-radar missile - Alarm, for short - which is being developed by the British Aerospace Dynamics Group (BAe).

His decision came after months of a bitter contest between BAe and

a partnership of U.S. Texas Instruments and Lucas Aerospace to provide the RAF with new missiles capable of suppressing the Warsaw Pact's increasingly sophisticated radar-based air defences.

However, it is understood that the Treasury has told the MoD it thinks that Texas Instruments' Harm - for High-speed Anti-Radar Missile - could provide a better bargain for the RAF.

At the heart of the controversy over the new missiles, officials say, is the question of whether Britain should develop or retain key defence technologies within the UK. It is said that the vital radar-seeking technology would not be transferred to Britain if the U.S. Harm system were bought for the RAF.

The proposals for the rival weapons systems were submitted to the MoD late last year.

## World Weather

Area	Temp	Wind	Area	Temp	Wind
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27
Algeria	25	27	Algeria	25	27

## Brazil rescue package

Continued from Page 1

He said that would pump at least \$2bn into the rescue programme and help to finance Brazil's growing exports.

● The IMF will be asked temporarily to waive certain conditions related to its economic adjustments programme for Brazil. The idea is to relax the IMF's stringent terms so the country can return to its initial targets by the end of the year. Brazil has already exceeded its agreed inflation limit of around 90 per cent and is now running at between 120 and 150 per cent.

● The BIS may be asked to allow Brazil to defer its May repayments of more than \$400m on the BIS

bridging loan. This would allow Brazil to make use of extra liquidity, urgently needed until its trade balance improves and the benefits of this improvement are felt.

● Those banks which are unwilling to restore interbank credits will be told they may do so directly to the Brazilian central bank instead of to Brazilian commercial banks.

"If certain banks have a psychological barrier and have not restored interbank lines, then we hope that the extra security of channelling these lines to the central bank will persuade them," one U.S. banker involved in the Brazilian rescue package explained.

## Property Report 1983

United Kingdom France Germany and USA

- Investment Market
- Office Market
- Industrial and Warehouse Market
- Retail Market
- Hotels
- Petrol Filling Stations
- Plant and Machinery
- Legislation and General Practice



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# SECTION II - COMPANIES AND MARKETS

## FINANCIAL TIMES

Monday May 16 1983

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### Brazilian Central Bank chief bids to save loan deal

BY MARGARET HUGHES

CRUCIAL TALKS are underway in New York and Washington to preserve the multi-billion dollar rescue package negotiated for Brazil in February. Sr Carlos Langoni, governor of the Central Bank, spent the weekend talking to some of the main creditor banks and is due in Washington today for discussions with the IMF. He will then return to New York for further negotiations with the commercial banks.

Sr Langoni is expected to request a relaxation of IMF targets which Brazil has failed to meet so that it can draw down the second tranche of its \$4.9bn IMF standby credit due at the beginning of June.

Brazil has failed to meet the targets set by the IMF for its public sector deficit and for inflation. In the first quarter the deficit hit Cr 4,000bn (\$8.6bn) against a target of Cr 2,900bn, while inflation soared past the 90 per cent ceiling to between 120 and 150 per cent.

Sr Langoni may also be seeking a delay on the May repayment of the second \$400m tranche of the \$1.2bn loan which the Bank for International Settlements (BIS) granted in December. Brazil earlier attempted to get repayment delayed by three months, extending the final maturity to the spring of 1984 instead of the end of this year.

But it met strong resistance from BIS central bankers and subsequently made the first repayment. It remains to be seen whether Brazil finds them more receptive this time.

Sr Langoni's U.S. visit comes after a further meeting of the 18-bank liaison committee failed yet again to resolve the interbank lines short-fall. A suggestion that would allow banks to increase their trade credits to Brazil instead was rejected by those such as the major U.S. banks, the Japanese, British and Dutch, which have already agreed to increase their lines on a pro rata basis.

For the time being at least, efforts are concentrated on preserving the existing rescue package rather than requesting any new loans, although Brazil's liquidity problems make this an option which may have to be implemented earlier than expected.

Meanwhile, U.S. Treasury Secretary Mr Donald Regan, who said last week he did not think Brazil would default on its international debt, has rather confused the Chilean rescue package by saying the U.S. had not provided a bridging loan to Chile either directly or through the BIS. But the BIS last week approved a \$350m bridging loan to Chile and the U.S. had been expected either to participate in this loan or independently provide \$100m. Another \$180m has been put up by 12 commercial banks.

The IMF's recommended devaluation of the Venezuelan bolivar looks like being resisted by the present government. Finance Minister Sr Arturo Sosa says he will not implement any IMF programme which might have socially harmful consequences. The main creditor banks will be meeting Venezuelan officials in New York this week.

Argentina has gone some way to bringing its interest payment on public sector debt up to date by beginning its April payments. The Central Bank has also indicated that it will shortly announce new terms for refinancing its \$4.6bn short term private sector debt. This would remove one of the obstacles to the new \$1.5bn medium term loan from commercial banks, but others remain.

Several banks are adamant that Argentina's bankruptcy legislation must be changed. This is because under present law the \$150m foreign debts owed by the paper manufacturer, Cellulosa Argentina, are subordinate to debts owed to domestic banks. Foreign banks fear they may have to wait for 15 years before being repaid.

### EUROBONDS

## Warrant fever is arrested

THE EURODOLLAR bond market's recent bout of warrant fever subsided last week. That is not to say that no more warrant issues will be launched, but we are unlikely to see 40 or 50 per cent premiums over the share price.

The market witnessed dramatic falls last week in the pre-market prices of many recent warrant issues. Deutsche Bank's \$100m, 6½ per cent 1991 issue plunged from 120 to 104 in one day. But the performance of ICI's \$100m, seven-year, 8½ per cent deal disturbed the market even more.

From its par price of 125, the bond slipped a couple of points each day last week to close on Friday at about 111. The main problem lay with the warrants - the stripped bond was still trading quite steadily at 98½.

Quite apart from lead manager Goldman Sachs the co-managers and underwriters stand to lose quite a lot of money unless ICI's share price picks up substantially. Moreover, the houses participating in the deal learned on Friday that they are to receive their full allot-

ments of the bonds. They have yet to hear what proportion of Goldman's stabilisation losses - if there are any - they have to bear.

Some houses have complained to Goldman, though as Peter Goldschmidt, director of the bank, points out. The underwriters accepted the underwriting in full knowledge of what the terms were. They had every opportunity not to accept.

ICI admitted at the time that the warrants had been added at the last-minute to appeal to warrant-hungry investors. "In retrospect," says Goldschmidt, "we would have preferred to do it without the warrants. Then it would have been more of a success."

More deals with warrants are expected next week, but the pricing on them is likely to be more generous, with premiums about 15-20 per cent of the share price. (Since ICI's share price has fallen, the warrant premium still works out at over 40 per cent, which suggests that the warrant price may have further to fall.)

The Eurodollar market still seems to be bullish at heart, though. Most people expect interest rates to go down rather than up, but few are predicting anything dramatic either way. Both the six-month Eurodollar rate and the U.S. Fed Funds rate are edging downwards. Recently, discount rate cuts have tended to follow, rather than lead, falls in the Fed Funds rate, but several U.S. observers have suggested that Fed Funds would have to hover around the 8 per cent mark for some time before the discount rate was reduced from 8½ per cent.

New issue activity last week was lighter than the week before. Thursday was a public holiday on the continent and Friday started with prices marked down on the back of a weak New York market. However, New York picked up during the afternoon and the Eurodollar sector followed suit. Monday will see a new \$20m convertible issue from Amedco, a U.S. manufacturer of health care products. Led by Morgan Grenfell and Shearson American Express, the 15-year bond will have a 7½ per cent coupon, an a conversion premium of about 12½ per cent at par.

since its straight bonds are rarely for more than 10 years.

First Boston has estimated that the average spread over 30-year Treasuries that a double - A rated industrial company would have to pay for a bond of the same maturity in the U.S. market is only 51 basis points. During the March to May quarter, by comparison, the average spread was 107 basis points, with a high of 168 and a low of 48. This has led to a rash of borrowing over long maturities.

Both bulldog and Eurosterling markets have come back to life after a two-month period in which no new issues were launched. Since the beginning of April, five borrowers have come to the markets, raising nearly £300m.

Two factors have proved important in this renaissance - the recovery of the pound and a decline in sterling interest rates.

### Life returns to the sterling markets

BY OUR EUROMARKETS STAFF

THE BULLDOG and Eurosterling markets have come back to life after a two-month period in which no new issues were launched. Since the beginning of April, five borrowers have come to the markets, raising nearly £300m.

Two factors have proved important in this renaissance - the recovery of the pound and a decline in sterling interest rates.

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Two factors have proved important in this renaissance - the recovery of the pound and a decline in sterling interest rates.

### CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
<b>U.S. DOLLARS</b>							
U.S. DOLLARS	40	1988	15	5	100	Monroe Intl.	5.800
Secur. 5½	50	1985	12	10	98.48	Monroe Secs.	11.502
Quaker Prov. ½	100	1985	12	5½	100	CSFR	-
BRI ½	100	1990	7	10½	100	Wood Gundy	10.500
Mobilize Prov. ½	100	1983	10	10½	100	Monroe Intl.	10.750
BDC ½	100	1988	7	10	100	Comstock	7.000
Comstock ½	250	1985	12	5½	100	Kidder Peabody, Merrill Lynch, Salomon Bros.	-
Creditanstalt-Bank. ½	50	1988	5	10½	100	SG Warburg, EBC, Mamer.	10.750
St. Western Fin. Corp. 5	50	1988	15	-	100	Monroe	-
Honda Motor 5	100	1988	15	-	100	Monroe Secs., Monroe Intl.	5.250
Amedco 5	20	1988	15	-	100	Morgan Grenfell, Shearson/Amerc.	7.500
<b>CANADIAN DOLLARS</b>							
BMP ½	50	1993	10	12	100	BMP, Wood Gundy, Orion Royal Bank	12.000
<b>D-MARKS</b>							
Spanish Tele. ½	100	1983	10	8½	100	Drescher Bank	8.250
Asian Devt. Bank ½	100	1983	10	8½	100	Bay, Hypothekbank	8.250
SATS	100	1990	7	8½	-	BIF-Bank	-
<b>SWISS FRANCES</b>							
Tessera Jastero ½	50	1988	-	3½	100	SBC	3.750
Tessera Selyoku ½	50	1988	-	3½	100	UBS	3.625
Sea-ri Oil Co. ½	20	1988	-	5½	100	CS	5.125
Honda Motor ½	100	1983	-	3½	100	UBS	3.625
Honda Motor ½	100	1988	-	3½	100	UBS	3.625
Medial Ind. Co. ½	30	1988	-	3½	100	Banca del Gottardo	-
ADB	100	1993	-	-	-	CS	6.125
<b>GUILDERS</b>							
Asian Devt. Bank	150	1993	10	8½	-	ABN, Amro Bank	-
<b>DANISH KRONER</b>							
Nordic Invest. Bank ½	100	1993	6½	7	100	Den Danske Bl., Handelsbank, Privatbanken	7.000
<b>ECUs</b>							
European Banking Co. ½	40	1988	6	11½	100	Paribas, Soc. Gen. de Dep., EBC, Société Générale	11.500
<b>YEN</b>							
ONK ½	200m	1983	9	8	100	Monroe Secs.	8.000

\* Not yet priced. ½ Fixed term. \*\* Placement. † Floating rate note. ‡ Minimum. \$ Convertible. ¶ With warrants. †† Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on AIBD basis.

## BMW Overseas Enterprises N.V.

U.S. \$50,000,000

10½% Guaranteed Notes Due 1991

The Notes will be unconditionally guaranteed by



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DEUTSCHE BANK AKTIENGESELLSCHAFT DRESNER BANK AKTIENGESELLSCHAFT  
LEHMAN BROTHERS KUHN LOEB SWISS BANK CORPORATION INTERNATIONAL LIMITED  
UNION BANK OF SWITZERLAND (SECURITIES) LIMITED

May 8, 1983

All of these securities have been sold. This announcement appears as a matter of record only.



U.S. \$100,000,000

## Mitsubishi Corporation

(Mitsubishi Shoji Kabushiki Kaisha)

10½% Notes Due 1990

MORGAN GUARANTY LTD

MERRILL LYNCH INTERNATIONAL & Co.

MORGAN STANLEY INTERNATIONAL

THE NIKKO SECURITIES Co., (EUROPE) LTD.

BANK OF TOKYO INTERNATIONAL LIMITED

BANQUE NATIONALE DE PARIS

CREDIT SUISSE FIRST BOSTON LIMITED

DEUTSCHE BANK AKTIENGESELLSCHAFT

KLEINWORT, BENSON LIMITED

MITSUBISHI BANK (EUROPE) S.A.

SWISS BANK CORPORATION INTERNATIONAL LIMITED

UNION BANK OF SWITZERLAND (SECURITIES) LIMITED

YAMAICHI INTERNATIONAL (EUROPE) LIMITED

May 4, 1983

All these securities have been sold. This announcement appears as a matter of record only.





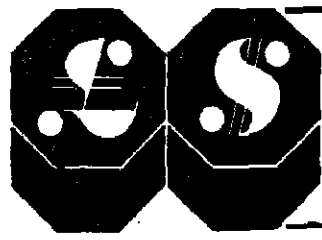




A copy of this Prospectus, having attached thereto the documents referred to below, has been delivered to the Registrar of Companies in Edinburgh for registration.

This Prospectus includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Murray Electronics PLC ("the Company"). The directors of the Company have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the directors accept responsibility accordingly.

Application will be made to the Council of The Stock Exchange for admission to the Official List of the Ordinary Shares of 25p each of the Company issued and now being issued.



# MURRAY ELECTRONICS PLC

(Incorporated in Scotland under the Companies Acts 1948 to 1981 with registered number 82551)

## OFFER FOR SALE

by

## ROBERT FLEMING & CO. LIMITED

of

30,000,000 Ordinary Shares of 25p each  
at 100p per share payable in full on application

Notification of firm intentions to apply for 19,380,000 Ordinary Shares under the Offer for Sale has been received. Moreover, further such notification in respect of up to 3,140,000 Ordinary Shares may be received, prior to the opening of the Application List, from persons approached before such time. It is intended to accept all such applications in full.

The Ordinary Shares now being offered for sale rank in full for all dividends hereafter declared or paid on the Ordinary share capital of the Company. The Application List for the Ordinary Shares now offered will open at 10 a.m. on 19th May, 1983 and may close at any time thereafter. The procedure for application is set out at the end of this prospectus.

### SHARE CAPITAL

Authorised	Issued and now being issued
£10,000,000	£7,500,000
In Ordinary Shares of 25p each	

**Directors**  
JOHN RAYMOND JOHNSTONE, B.A., C.A., Wards, Gartocharn, Dunbartonshire, Chairman.  
  
PETER GEORGE BARNWELL, B.Sc., Ph.D., 83 Brown Street, Salisbury, Wiltshire.  
  
CLIVE ANTHONY DAVIES, B.Sc., Hulsh Manor, Winterborne Zelston, nr. Blandford, Dorset.  
  
ROSS STEVENSON PETERS, M.A., Wester Kerse, Lochwinnoch, Renfrewshire.  
  
ERIK OYVIND JARL SALBU, (Citizen of Norway), 23641 Camino Hermosa, Los Altos Hills, California 94022.  
  
PETER SMITHAM, B.Sc., Flat 4, 5/6 Clarendon Terrace, Marina Parade, Brighton, Sussex.

**Manager and Secretary**  
MURRAY JOHNSTONE LIMITED, 163 Hope Street, Glasgow G2 2UH.  
  
**Registered Office**  
163 Hope Street, Glasgow G2 2UH.  
  
**Issuing House**  
ROBERT FLEMING & CO. LIMITED, 8 Crosby Square, London EC3A 6AN.  
  
**Authors and Reporting Accountants**  
ARTHUR YOUNG MCLELLAND MOORES & CO., Chartered Accountants, George House, 50 George Square, Glasgow G2 1FR.  
  
**Solicitors to the Company**  
MONCHIEFF WARREN PATTERSON & CO., 1 Blythswood Square, Glasgow G2 4AA.  
  
**Solicitors to the Offer**  
LINKLATERS & PAINES, Barrington House, 59/67 Gresham Street, London EC2V 7JA.

**Stockbrokers**  
ROWE & PITMAN, City-Gate House, 38-45 Finsbury Square, London EC2A 1JA and The Stock Exchange.  
LAURENCE, FRUST & CO., Basilidon House, 7/11 Moorgate, London EC2R 6AH and The Stock Exchange.  
  
**Bankers and Receiving Bankers**  
CLYDESDALE BANK PLC, 30 Lombard Street, London EC3V 9BB.  
  
**Registrar and Transfer Office**  
CLYDESDALE BANK PLC, Stock Exchange Services Department, 30 St. Vincent Place, Glasgow G1 2HL.  
  
**Consultants and Advisers**  
DATAQUEST INCORPORATED, 1290 Ridder Park Drive, San Jose, California 95131.  
ROBERT FLEMING INCORPORATED, 630 Fifth Avenue, New York, NY 10020.

**INTRODUCTION**  
The objective of the Company is to achieve capital growth through investment principally in unlisted electronics companies whose management strength, product development and penetration of markets are sufficiently advanced for an investor to expect that these companies' shares will become traded on a recognised securities market without an intervening injection of outside capital. In certain of these investments the Company expects to act as the lead investor.

The directors believe that there is a growing number of such companies which, in seeking finance, appreciate the involvement of an investor able to contribute advice and technical assistance in addition to financial resources. Murray Johnstone Limited ("Murray Johnstone"), the manager of the Company, has had considerable experience of giving assistance of this kind, especially in the development of contacts and in the transfer of technology between North America and the United Kingdom. The directors believe that Murray Johnstone has gained a reputation as a result of this experience which will lead to the Company receiving opportunities to invest in companies seeking such a contribution. They further believe that the Company's involvement should facilitate the successful development of many of these companies.

**MANAGEMENT**  
The Company is to be managed by Murray Johnstone which has developed considerable expertise in appraising unlisted companies and selecting those suitable for investment. Over the past two years, Murray Johnstone, through its contacts with high technology companies and organisations specialising in the finance of such companies, has considered over 500 unlisted investment propositions. Although no investment commitments have been made on behalf of the Company, its directors believe that Murray Johnstone's knowledge of the market will enable it to identify investment opportunities for the Company within a reasonable period after this Offer for Sale.

Among unlisted high technology investments made by Murray Johnstone on behalf of clients, the following have either been taken over or have graduated to a listing on The Stock Exchange or are traded on an overseas market:

BR Communications  
Computer and Systems Engineering PLC  
Dissonic Inc.  
Eurotherm International P.L.C.  
Jemyn Holdings Limited  
J.K. Lasers Limited  
Masstor Systems Corporation  
Unitech P.L.C.

Murray Johnstone is a company whose business is that of investment management and advice, it is wholly owned by five listed investment trust companies ("the Murray Trusts"). In addition to the portfolios of the Murray Trusts it also manages the investments of Murray Technology Investments PLC, and of a number of pension funds and other clients. Total funds under management or advice exceed £1,000 million.

**Murray Technology Investments PLC ("Tech")**  
Murray Johnstone is investment manager of Tech which has, since its formation in 1981, invested in high technology companies. Its portfolio, however, has a wider spread than the intention in the case of the Company, and contains investments in unlisted companies at all levels of development. Although Tech will be interested in a large number of investments unlikely to interest the Company, most of the investments of the Company are likely to be of interest to Tech. Accordingly, the Company has agreed with Tech and Murray Johnstone that, where the Company is considering a new investment, Tech will be given the opportunity to participate in up to one-third in value of such investment.

In order that shareholders in Tech may have the opportunity of investing in the Company, they will be given Preferential Application Forms for this Offer for Sale, as set out in Procedure for Application below.

**INVESTMENT POLICY**  
The directors of the Company do not intend to place a restriction on the proportion of the Company's portfolio which is invested in any one country but they expect that the eventual distribution will be some 55 per cent. in North America, 40 per cent. in the United Kingdom and the balance elsewhere.

Although the Company will, where it considers it appropriate, seek Board representation it will not take controlling shareholdings or management control. It expects to take substantial minority stakes of between 5/50,000 and 25 million in the companies in which it invests.

It is the intention of the directors that, save in exceptional circumstances, no single investment will, at the time of acquisition, represent more than 10 per cent. of the Company's gross investment fund. Moreover the Regulations of The Stock Exchange concerning investment companies require that not more than 20 per cent. of the Company's gross investment fund may be represented by an investment in any one enterprise at the time that such investment is made. In addition, in order to qualify as an approved investment trust within the meaning of section 359 (as amended) of the Income and Corporation Taxes Act 1970 no holding in any one company (other than a company which is for the time being an investment trust) may represent more than 15 per cent. by value of the Company's investments at the time the investment is acquired.

Although the Company's articles of association contain borrowing powers, it is not the present intention of the directors that the Company should borrow any significant sums of money.

The directors do not intend altering any aspect of the Company's investment policy as set out in this document for a period of at least three years from the date hereof.

### DIRECTORS

J. R. Johnstone (53) is the managing director of Murray Johnstone, the chairman of Scottish Amicable Life Assurance Society, the chairman of The Dominion Insurance Company Limited and the chairman of Tech.

Dr. P. G. Barnwell (38) is the founder, chairman and managing director of Corintech Limited (a designer and manufacturer of micro-electronic circuits) and a director of Tech. He was formerly senior lecturer in electronics at Brighton Polytechnic during which time he acted as a consultant to a number of companies including THORN EMI plc.

C. A. Davies (39) is chief executive of Information Technology Limited ("ITL") and a member of the Advisory Panel to the Cabinet on Information Technology. He is also a director of Rodime PLC. Before founding ITL, he was managing director of Membrain Limited, which was sold to Schlumberger Limited in 1977. Prior to that he was a research engineer in computer and integrated circuit design with The Plessey Company plc.

R. S. Peters (40) is an executive director of Murray Johnstone where he is responsible for investments in unlisted companies. After reading Natural Sciences and Economics at Cambridge, he was employed by Rolls-Royce Limited where he designed computer systems and subsequently by McIlkenny Moore & Murray, management consultants, where he advised a wide range of industrial companies. He was the main architect of Tech and is responsible for the implementation of its investment objectives. He is a director of Tech which he represents on the boards of a number of technology companies in the United Kingdom and North America.

E. O. J. Salbu (49) has served as president and chairman of the board of Masstor Systems Corporation since its formation in 1976. Before founding that company, he was responsible for the development, marketing and management of a mass storage system program at Ampex Corporation where he worked for ten years. Prior to this, he participated in the initial development of a mass storage product by International Business Machines Corporation.

P. Smitham (41) is the managing director of Jemyn Holdings Limited (a distributor of electronic components in the United Kingdom, Germany and France) where he has been employed since 1973. He formerly held senior management positions with International Telephone and Telegraph Components Group Limited.

**ADVISERS AND CONSULTANTS**  
The Company has retained as advisers and consultants Robert Fleming Incorporated and Dataquest Incorporated ("Dataquest").

Robert Fleming Incorporated, a registered broker-dealer, is a wholly-owned subsidiary of Robert Fleming Holdings Limited. Among other activities, it provides a range of financial services and advice, including a smaller company and venture capital specialist investment research service both for Robert Fleming Holdings Limited and its subsidiaries and for international corporate and private clients. Robert Fleming Incorporated will assist the Company with the financial investigation of investment opportunities in North America.

Dataquest, a subsidiary of A. C. Nielsen Company, is an electronics industry research group with a presence in the U.S.A., the United Kingdom, Japan, Germany and France. Dataquest spent approximately \$10 million in its last financial year in updating its technology database with information on products, markets and companies and has more than five hundred technology companies as its clients. Dataquest will assist with the identification of companies which meet the Company's investment criteria. The directors of the Company consider that the database of Dataquest includes information on emerging companies in the technological field which are actively seeking investors with the level of understanding and commitment which is available to the Company through its manager and with the contribution the Company can therefore make.

**RISK FACTORS**  
Most of the companies in which the Company invests will, by the nature of the industries in which they operate, be exposed to the risk of changes in technology and in many cases to severe competition from other companies. Potential investors, therefore, must be aware of the risk associated with the Company's investment policy, although the number of investments should reduce the degree of risk.

**TAXATION**  
It is the intention of the directors to ensure that the Company will satisfy the conditions for approval as an investment trust laid down in section 359 (as amended) of the Income and Corporation Taxes Act 1970 and to apply to the Inland Revenue for approval of the Company as an investment trust. The Company will be exempt from United Kingdom tax on chargeable gains realised during any accounting period for which such approval is obtained.

**ACCOUNTS**  
The accounting reference date of the Company is 31st July and the first accounts of the Company will be made up for the period from 4th April, 1983 (the date of its incorporation) to 31st July, 1984. All investments will be reviewed annually for the purposes of the accounts.

**ACCOUNTANTS' REPORT**  
The following is the text of a report received by the directors of the Company and of Robert Fleming & Co. Limited from Arthur Young McClelland Moores & Co., Chartered Accountants, the reporting accountants and the auditors of the Company:—

The Directors,  
Murray Electronics PLC,  
163 Hope Street,  
Glasgow G2 2UH,  
and  
The Directors,  
Robert Fleming & Co. Limited,  
8 Crosby Square,  
London EC3A 6AN.

George House,  
50 George Square,  
Glasgow G2 1FR.

12th May, 1983.

Dear Sirs,  
We report that Murray Electronics PLC was incorporated on 4th April, 1983. Since that date no accounts have been made up, no dividends have been declared or paid and the Company has not commenced business.

Yours faithfully,  
ARTHUR YOUNG MCLELLAND MOORES & CO.,  
Chartered Accountants.

### DIVIDENDS

The Company intends to derive its income wholly or mainly from shares and securities and will retain no more than 15 per cent. of its income from that source. Since many of the companies in which the Company will invest will be at the development stage, any dividends which they pay are likely to be small. The directors expect shareholders to accept capital growth as the main investment objective. The Company will not distribute by way of dividend either surpluses arising from the realisation of its investments or profit retained by its associated companies (if any).

### STATUTORY AND GENERAL INFORMATION

**THE COMPANY**  
The Company was incorporated in Scotland as a public limited company on 4th April, 1983 with its present authorised share capital.

The only shares in issue are two Ordinary Shares of 25 pence each, taken by the subscribers of the memorandum of association.

On 9th May, 1983 the Company resolved (a) to adopt new articles of association appropriate to a listed company (b) that the directors be authorised generally to exercise the power of the Company to allot Ordinary Shares in the capital of the Company not exceeding £10 million in aggregate nominal amount at any time or from time to time during the five years (subject to permitted exceptions) following the date of the resolution and (c) that the pre-emption provisions of section 17(1) of the Companies Act 1980 should not apply to the directors' power to make allotments of Ordinary Shares in connection with a rights issue or to make other allocations of Ordinary Shares up to a maximum nominal amount of £8 million and that such power should expire (subject to permitted exceptions) at the next annual general meeting of the Company.

The Company has applied to the Registrar of Companies for a certificate to commence business under section 4 of the Companies Act 1980.

The Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to section 41(3) of the Companies Act 1980.

### ARTICLES OF ASSOCIATION

The articles of association of the Company contain, *inter alia*, provisions to the following effect:—

(i) The directors may carry to capital reserves any net capital appreciation realised on the sale or realisation of any capital assets of the Company for a consideration in excess of book value and any other sums representing accretions to capital. Such capital appreciation shall not be treated as representing profits available for distribution but may be used for offsetting capital losses.

(ii) On a show of hands every member present in person (or, if a corporation, present by a duly authorised representative) and entitled to vote shall have one vote and upon a poll every member present in person or by representative as aforesaid or by proxy, and entitled to vote, shall have one vote for every 25p in nominal amount of shares held by him.

(iii) If, within 28 days, compliance is not made with any notice given by the Company requiring the disclosure of the beneficial interests in any shares or other information relating thereto pursuant to section 74 of the Companies Act 1981, those shares shall be disenfranchised until the required disclosure is made.

(iv) A director shall not require a share qualification.

(v) A director shall not vote in respect of any contract, proposal or arrangement in which he is interested. This provision is subject to limited exceptions, and may be suspended or relaxed to any extent by ordinary resolution of the Company.

(vi) Section 185 of the Companies Act 1948, relating to the retirement and reappointment of directors who have attained the age of 70, shall apply to the Company.

(vii) The rate of ordinary remuneration of the directors, fixed at £5,000 per annum per director (£7,500 per annum in the case of the Chairman), may only be varied by ordinary resolution of the Company. Directors shall be entitled to be repaid all reasonable expenses incurred by them in attending Board meetings. Any director who is called upon to perform special services or to travel on the Company's business may be paid reasonable expenses and such additional remuneration therefor as the directors may determine.

(viii) The directors may pay pensions or other retirement, superannuation, death or disability benefits to any director or ex-director or to the widow or dependants of any such director or ex-director.

(ix) The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and (so far as permitted by law) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, provided that the aggregate principal amount for the time being remaining undischarged of all moneys borrowed by the Company (and so far as the directors are able to secure) its subsidiary companies (exclusive of intra-group borrowings) shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to 12 times the adjusted total of capital and reserves (as defined in the articles of association).

### MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company since its incorporation and are or may be material:—

1. An agreement dated 12th May, 1983, between the Company and Dataquest, whereby for an initial consideration of \$25,000 per annum, Dataquest has agreed, for an initial period of three years from 19th May, 1983, to assist the Company with the identification of businesses which meet the Company's investment criteria. The agreement is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980.

2. An agreement dated 12th May, 1983, between the Company and Robert Fleming Incorporated, whereby for the latter's normal fees for such services (subject to a minimum of \$40,000 per annum) the latter has agreed, for an initial period of three years from 19th May, 1983, to assist the Company with *inter alia* the evaluation of its subsidiary companies in North America which have been identified as meeting the Company's investment criteria. The agreement is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980.

3. An agreement dated 12th May, 1983, between the Company and Murray Johnstone, whereby Murray Johnstone has agreed to provide investment management and related services to the Company for a quarterly payment at the rate (subject to review) of 8 per cent. of the value of the gross assets (as defined in the agreement) of the Company at the beginning of each quarter (under deduction of certain sums paid by the Company to Dataquest and to Robert Fleming Incorporated for their services under contracts 1 and 2 above). The agreement, which is conditional on the issue to the Company of a certificate to commence business under section 4 of the Companies Act 1980, is for an initial period until 31st July, 1986 and includes the agreement of the Company to Murray Johnstone's negotiating for itself the acquisition of rights in or over any enterprise at which the Company is making an investment, but not exceeding in each case 25 per cent. of the value of the equity (as such terms are defined in the agreement) of such enterprise; any such acquisition shall be made on terms no more favourable than those of any comparable acquisition by the Company.

4. An agreement dated 12th May, 1983 among the Company, Tech and Murray Johnstone, whereby for an initial period of five years (subject to the Company and Tech being under common investment management) the parties have agreed that Tech should be given the opportunity to participate in up to one-third in value of every new investment considered by the Company.

5. The agreement dated 12th May, 1983 referred to in paragraph 1 above.

### GENERAL

1. An agreement has been made dated 12th May, 1983 between the Company (1), Murray Johnstone (2), the directors of the Company (3), and Robert Fleming & Co. Limited ("Robert Fleming") (4) under which Robert Fleming has agreed, conditionally upon the shares now being offered for sale being admitted to the Official List not later than 24th May, 1983, to take up 30 million Ordinary Shares in the capital of the Company and to offer them for sale for a commission of 2 per cent. (exclusive of VAT) of the total offer price out of which it will pay underwriting commission of 12 per cent., fees to Rowe & Pitman and Laurence, Frust & Co. and its own legal and out of pocket expenses. The Company will pay its preliminary expenses of £500 and also the remaining expenses of this offer, including accountancy and legal expenses, capital duty, the cost of printing and circulating the Prospectus and the fees and expenses of the receiving banker, which, together with the commission of 2 per cent. referred to above, are estimated to amount in aggregate to £1.1 million (exclusive of VAT where applicable).

2. No share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

3. Save in connection with this Offer for Sale, since the Company's incorporation:—  
(i) no share or loan capital of the Company has been issued or agreed to be issued or is proposed to be issued for cash or otherwise; and  
(ii) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any of its capital.

4. The directors are not aware of any litigation or claim pending or threatened against the Company.

5. Following completion of this Offer for Sale, no material issue of Ordinary Shares of the Company (other than to shareholders pro rata to their existing holdings) will be made within one year of the date of this Prospectus and no issue which would effectively alter the control of the Company will be made at any time without the prior approval of the Company in general meeting.

6. The Company has no loan capital (including term loans) outstanding or created but unused, nor any mortgages, charges or other borrowings or indebtedness. In the nature of borrowing including bank overdrafts, liabilities under acceptances or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities.

7. The minimum amount which in the opinion of the directors must be raised by the issue of the Ordinary Shares in order to provide for the matters referred to in paragraph 4 of the Fourth Schedule to the Companies Act 1948 is £500 made up as follows:—

- (i) purchase price of property; nil;
- (ii) preliminary expenses (including VAT) payable by the Company; £500;
- (iii) repayment of moneys borrowed for preliminary expenses; nil; and
- (iv) working capital; nil.

No amount is to be provided in respect of any of the matters aforesaid otherwise than out of the proceeds of the issue.

8. (i) Mr. J. R. Johnstone and Mr. R. S. Peters, directors of the Company, are directors of Murray Johnstone (a promoter of the Company) which will receive fees as the manager of the Company pursuant to Material Contract 3 above.

(ii) Robert Fleming Holdings Limited, which is the holding company of Robert Fleming, is also the holding company of Robert Fleming Incorporated which will receive fees as an adviser to the Company pursuant to Material Contract 2 above.







**Closing prices May 13**

## NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

**WORLD GOLD**  
in 1983 & 1984

The fifth FT Gold conference to be held in Lugano, Switzerland on 22 and 23 June 1983 will stress the market production and investment outlook. The silver market and gold-silver price relationships together with monetary questions will also be analysed.

Robert Guy of Rothschilds will chair the first day and give the Opening Address. The speaker platform will be as authoritative as at previous meetings in this well-regarded series.

For further details please contact  
FINANCIAL TIMES CONFERENCE ORGANISATION  
TELEPHONE 01-621 1255  
TELEX LONDON 2247 FROOM G

**Continued on Page 25**



**Closing prices May 13**

**Continued on Page 26**

**Continued on Page 26**

**Sales figures are unofficial.** Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25% or more has occurred since the last year-end, the sales figure shown is for the new stock only. Unless otherwise noted, rates of dividends are annual distributions based on the prior year's earnings.

a—dividend stock (also listed); b—annual rate of stock price change; c—liquidating dividend; d—closed; e—new-year low; f—e—dividend declared or paid in preceding 12 months; g—dividend in Canadian funds, subject to 15% non-residence tax; i—paid this year, omitted, deferred, or no action taken at latest dividend meeting; j—dividend declared or paid this year, an accounting dividend; k—dividend declared or paid during the past 52 weeks. The high-low range begins with the start of trading, not next-day day openings; P/E=price-earnings ratio; n—dividend declared or paid during 12 months ending on the date of the stock split; o—dividends by date of date of split; s=ale-sales; t—dividend paid in stock in preceding 12 months; estimated cash flow; u—unofficial; v—dividend suspended; w—dividend yield—y=trading halted; y=bankruptcy or receivership or being reorganized under the Bankruptcy Act; or securities assumed by another company; z=not available; aa=available; ab=available with warrants; ac=dividend or ex-divid; ad=ex-distribution; ae=without full; af=ex-dividend and sales in full; ag=yield; ah=total return.











## FT UNIT TRUST INFORMATION SERVICE

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### Insurances—continued

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Particulars of the Notes and of Asesores de Finanzas, S.A. de C.V. and Citibank, N.A. are available in the statistical service of Extel Statistical Services and may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 31 May 1983 from:

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**Authorized Units—continued**[illegible]

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## CURRENCIES; MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar mixed in uncertain trading

BY COLIN MILLHAM

The dollar showed mixed changes in quiet foreign exchange trading last week. U.S. economic statistics cast a shadow on earlier hopes of a reduction in the Federal Reserve discount rate, largely as a result of signs of strong growth in the U.S. economy. Figures on retail sales and consumer credit were followed by a rise of 2.1 per cent in April industrial production. Market expectations were in line with the increase of 1.2 per cent in March, but the strong rise led to fears that the Federal Reserve would keep a firm rein on monetary growth in the next few months, and probably not allow a reduction in the discount rate ahead of the Williamsburg Summit.

## EMS EUROPEAN CURRENCY UNIT RATES

Country	ECU	Central bank	% change	% change	Divergence
			against ECU	from last week	from last week
Belgium	43.360	1.040	+0.07	+0.07	-0.01
France	163.336	1.040	+0.07	+0.07	-0.01
Germany	2.361	1.040	+0.07	+0.07	-0.01
Italy	1.366	1.040	+0.07	+0.07	-0.01
Netherlands	2.361	1.040	+0.07	+0.07	-0.01
Spain	166.363	1.040	+0.07	+0.07	-0.01
UK	1.366	1.040	+0.07	+0.07	-0.01
Denmark	136.563	1.040	+0.07	+0.07	-0.01
Sweden	136.563	1.040	+0.07	+0.07	-0.01
Portugal	200.563	1.040	+0.07	+0.07	-0.01
Greece	166.363	1.040	+0.07	+0.07	-0.01
Ireland	166.363	1.040	+0.07	+0.07	-0.01
Finland	166.363	1.040	+0.07	+0.07	-0.01
Austria	166.363	1.040	+0.07	+0.07	-0.01
Switzerland	166.363	1.040	+0.07	+0.07	-0.01
Japan	166.363	1.040	+0.07	+0.07	-0.01
South Africa	166.363	1.040	+0.07	+0.07	-0.01
USA	166.363	1.040	+0.07	+0.07	-0.01
Yugoslavia	166.363	1.040	+0.07	+0.07	-0.01

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

## OTHER CURRENCIES

Country	May 15	May 12	% change	Notes
Argentina	130.55-121.05	127.50-127.50	-2.35	
Australia	1.010-1.010	1.010-1.010	0.00	
Canada	1.010-1.010	1.010-1.010	0.00	
Denmark	136.563-136.563	136.563-136.563	0.00	
France	163.336-163.336	163.336-163.336	0.00	
Germany	2.361-2.361	2.361-2.361	0.00	
Italy	1.366-1.366	1.366-1.366	0.00	
Netherlands	2.361-2.361	2.361-2.361	0.00	
Spain	166.363-166.363	166.363-166.363	0.00	
Sweden	136.563-136.563	136.563-136.563	0.00	
Switzerland	166.363-166.363	166.363-166.363	0.00	
UK	1.366-1.366	1.366-1.366	0.00	
USA	1.010-1.010	1.010-1.010	0.00	
Yugoslavia	166.363-166.363	166.363-166.363	0.00	

## THE POUND SPOT AND FORWARD

May 15	May 12	% change	Notes
Spot	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
One month	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Three months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Six months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
One year	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Two years	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm

## EXCHANGE CROSS RATES

May 15	May 12	% change	Notes
US Dollar	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Deutsche Mark	3.361-3.361	3.361-3.361	0.00
Japanese Yen	163.336-163.336	163.336-163.336	0.00
French Franc	163.336-163.336	163.336-163.336	0.00
Swiss Franc	163.336-163.336	163.336-163.336	0.00
Dutch Guilder	163.336-163.336	163.336-163.336	0.00
Italian Lira	163.336-163.336	163.336-163.336	0.00
Canadian Dollar	163.336-163.336	163.336-163.336	0.00
Belgian Franc	163.336-163.336	163.336-163.336	0.00

## MONEY MARKETS

## A quiet week in London

It was a very quiet week on the London money market. There was no shortage of news, but most of it was of a "wait and see" nature, resulting in a nervous marking up of interest rates by about 1-1/2 per cent. The general election date of June 9 was favourably received, but although rates had been easing down on hopes of a cut in base rates around the time of an early election, the actual announcement by the Prime Minister tended to cure the recent fever and replace it with a severe case of cold feet.

Presumably it is one thing to be optimistic of another Conservative Government in the event of an election, but quite another when the spectre of a Socialist regime begins to take tangible form whatever the opinion polls might say. UK money supply figures have been very disappointing recently, and the market has therefore been hoping for a reduction in U.S. rates if London interest rates are to be cut in the near future.

Events seem to depend on which have been digesting movements in U.S. markets, several economic statistics of late. A rise of 1.6 per cent in U.S. April retail sales, coupled with sharp growth in March consumer instalment credit pointed to strong growth in the U.S.

## INTEREST RATES

## EURO-CURRENCY INTEREST RATES

May 15	May 12	% change	Notes
3 month U.S. dollars	10.10-10.10	10.10-10.10	0.00
6 month U.S. dollars	10.10-10.10	10.10-10.10	0.00
12 month U.S. dollars	10.10-10.10	10.10-10.10	0.00
3 month Sterling	10.10-10.10	10.10-10.10	0.00
6 month Sterling	10.10-10.10	10.10-10.10	0.00
12 month Sterling	10.10-10.10	10.10-10.10	0.00

## FT LONDON INTERBANK FIXING

May 15	May 12	% change	Notes
3 month U.S. dollars	10.10-10.10	10.10-10.10	0.00
6 month U.S. dollars	10.10-10.10	10.10-10.10	0.00

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for \$100 quoted by the market to the reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Paribas and Morgan Guaranty Trust.

## FORWARD RATES AGAINST STERLING

May 15	May 12	% change	Notes
1 month	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
3 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
6 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
12 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm

## BANK OF ENGLAND TREASURY BILL TENDER

May 15	May 12	% change	Notes
1 month	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
3 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
6 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
12 months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm

## CURRENCY MOVEMENTS CURRENCY RATES

May 15	May 12	% change	Notes
US Dollar	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Deutsche Mark	3.361-3.361	3.361-3.361	0.00
Japanese Yen	163.336-163.336	163.336-163.336	0.00
French Franc	163.336-163.336	163.336-163.336	0.00
Swiss Franc	163.336-163.336	163.336-163.336	0.00
Dutch Guilder	163.336-163.336	163.336-163.336	0.00
Italian Lira	163.336-163.336	163.336-163.336	0.00
Canadian Dollar	163.336-163.336	163.336-163.336	0.00
Belgian Franc	163.336-163.336	163.336-163.336	0.00

## THE DOLLAR SPOT AND FORWARD

May 15	May 12	% change	Notes
Spot	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
One month	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Three months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Six months	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
One year	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Two years	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm

## FINANCIAL FUTURES

May 15	May 12	% change	Notes
US Dollar	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Deutsche Mark	3.361-3.361	3.361-3.361	0.00
Japanese Yen	163.336-163.336	163.336-163.336	0.00
French Franc	163.336-163.336	163.336-163.336	0.00
Swiss Franc	163.336-163.336	163.336-163.336	0.00
Dutch Guilder	163.336-163.336	163.336-163.336	0.00
Italian Lira	163.336-163.336	163.336-163.336	0.00
Canadian Dollar	163.336-163.336	163.336-163.336	0.00
Belgian Franc	163.336-163.336	163.336-163.336	0.00

## WEEKLY CHANGE IN WORLD INTEREST RATES

May 15	May 12	% change	Notes
US Dollar	1.5610-1.5700	1.5605-1.5675	0.04-0.10 pm
Deutsche Mark	3.361-3.361	3.361-3.361	0.00
Japanese Yen	163.336-163.336	163.336-163.336	0.00
French Franc	163.336-163.336	163.336-163.336	0.00
Swiss Franc	163.336-163.336	163.336-163.336	0.00
Dutch Guilder	163.336-163.336	163.336-163.336	0.00
Italian Lira	163.336-163.336	163.336-163.336	0.00
Canadian Dollar	163.336-163.336	163.336-163.336	0.00
Belgian Franc	163.336-163.336	163.336-163.336	0.00

London-based 1 bill matures in up to 14 days, 2 bills 15 to 33 days, and 3 bills 34 to 60 days. Rates quoted represent Bank of England buying and selling rates with the money market. In other countries rates are generally quoted in the domestic money market and their respective changes during the week.

These securities having been placed privately outside Canada and the United States of America, this announcement appears as a matter of record only.

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Ass. Bld. Ind. Ord.	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2
Ass. Bld. Ind. CULS	151	-1	10.0	6.6	10.2

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## FINANCIAL TIMES SURVEY

Monday May 16, 1983

## WORLD BANKING

PART TWO: Part One appeared last Monday

## A revolution in financial services

TEN YEARS AGO it would have seemed inconceivable to most bankers that the 1990s could bring an onslaught of competition for banking business from retailers, securities houses, insurance companies, credit card and travellers' cheque groups, as well as traditional one-product savings institutions, such as building societies.

Yet this is precisely what is now happening as these organisations race along with commercial banks to find their place in what has become known around the world as "The Financial Services Revolution."

Advanced electronic technology has been the hand-maiden of this revolution. And it is beginning to pose a threat to the most precious commodity that the world's banks have at their disposal—the retail deposit base.

For a traditionally conservative industry such as banking the threat of technology-aided competition from non-banks first seemed perplexing and then worrying. It has taken a few years for the pin-striped guardians of the banking world to react.

But the realisation that a company such as America's retail giant—Sears Roebuck—might actually attempt to sell banking services to its 25m credit card customers the way it already sells boots and toasters has sunk in.

Bankers in the U.S. and elsewhere have watched as Ameri-

By ALAN FRIEDMAN  
Banking Correspondent

can Express-Shearson, Merrill Lynch, Prudential-Bache, Aetna Life, Visa, MasterCard and J. C. Penney have either announced their intentions or launched visible business schemes designed to attract customer deposits away from more traditional names such as Barclays, Citibank and Deutsche Bank.

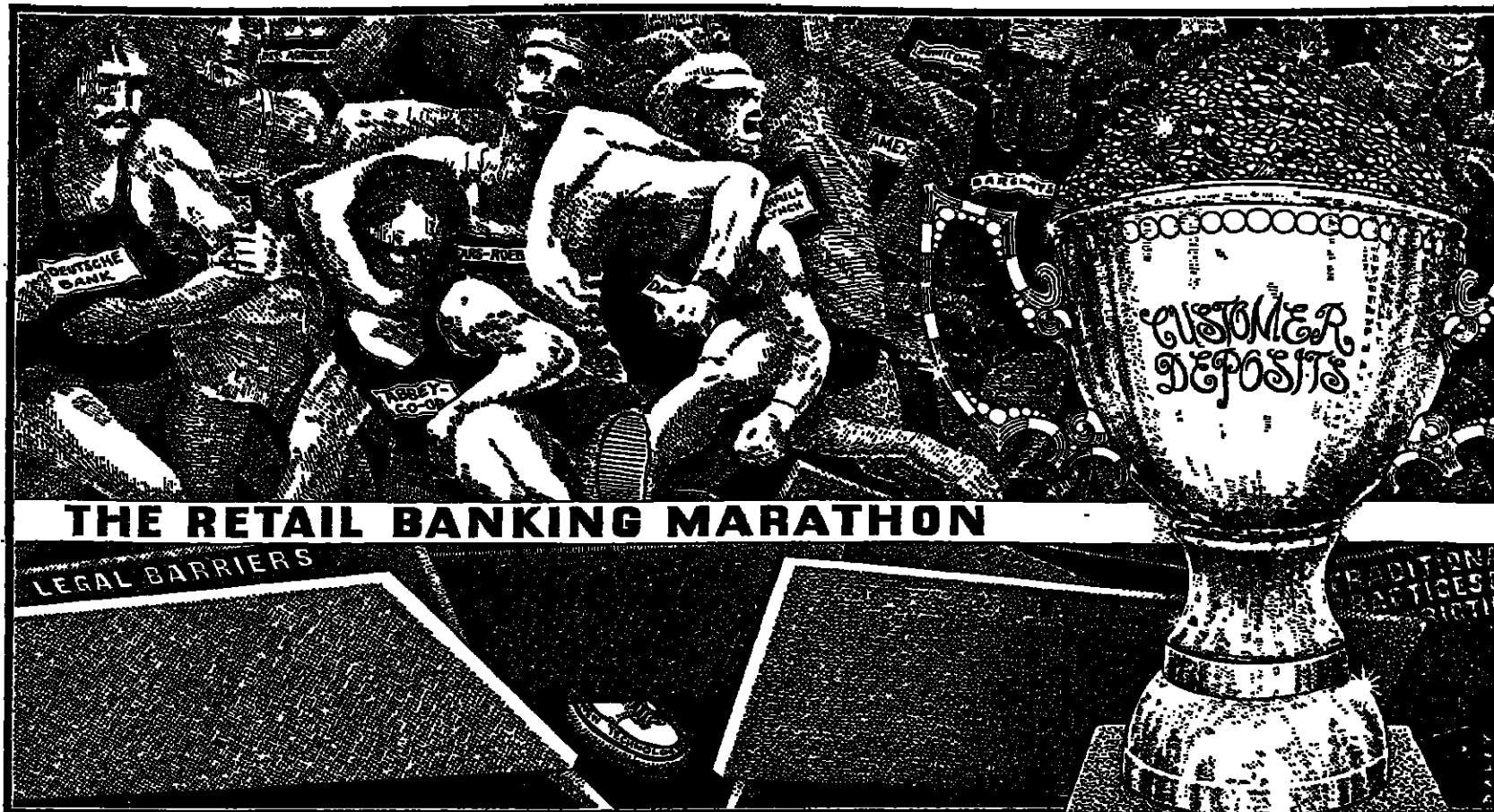
The entry of non-banks into mainstream retail banking business is a result of several key factors including the rise of electronic technology.

For one thing the traditional and legal barriers which have given banks a privileged position for more than 50 years are beginning to break down around the world. In the U.S. it is most apparent as savings banks and commercial banks do battle

with one another and with retailers and securities houses. Meanwhile, the idea of interstate branching is becoming less a concept and more a reality even though the laws have not yet been altered.

In West Germany, the past few years have seen increasingly vigorous competition among savings, commercial and co-operative banks. Tivvy vicious rows have flared among these bank groupings as a result of differences over how best to organise West Germany's retail payments systems such as cards and travellers' cheques. In the end it was American Express, which is not a bank, which came into West Germany and developed its own preferred solution on payment systems.

In Britain, the nation's building societies have launched an unprecedented offensive on the oligarchic Big Four clearing bank establishment. The battle for High Street customer deposits has never been hotter.



In Japan, the leading commercial banks and major securities houses are locked in a quiet struggle to offer more types of financial services to a market of 120m Japanese. The banks are encroaching on the securities houses' traditional government bond business and the securities firms are demanding more banking activities such as commercial paper business.

The global push into retail banking is also a function of transatlantic experiences in the international syndicated loan market and in corporate banking. Packaging a 20-bank loan syndicate which underwrites and sells down \$500m of credits to Mexico may have required less skill and may have seemed more like traditional banking business a few years ago, but it became an unhappy experience for many commercial banks.

Losing millions of bank customers' deposits away from Bank X and over to Premium Gold Card Company Z requires a greater capital expenditure

and more marketing skills, but it appears to be working.

How else can one explain the success of organisations which offer plastic cards—which customers pay for—and money market funds linked to the plastic cards, or accounts which can be utilised through regional or nationwide networks of cash dispensers? How else could it be that non-banks are making a dent in bank deposits by offering easier access to customer deposits and more sophisticated alternatives for money transmission?

Customers around the world, particularly at the upper end of the market, are showing a decided preference for organisations which will provide convenience and choice. Money can be transmitted around the planet at the speed of light and an increasing number of individual customers are opting away from the tradition of nine to three banking hours at unimaginative bank branches.

The world's banks are fighting back. In the UK the past three

years have seen an unprecedented lunge for home mortgage business by the banks. Barclays, for example, is opening its doors on Saturday mornings to compete with the more convenient hours of building societies.

In Scandinavia a number of banks have been successful in developing electronic funds transfer (EFT) systems which meet customer demands.

In the U.S. banks are examining ways to get into insurance, brokerage and interstate branching business to maintain what many U.S. bankers call "a level playing field" with non-banks.

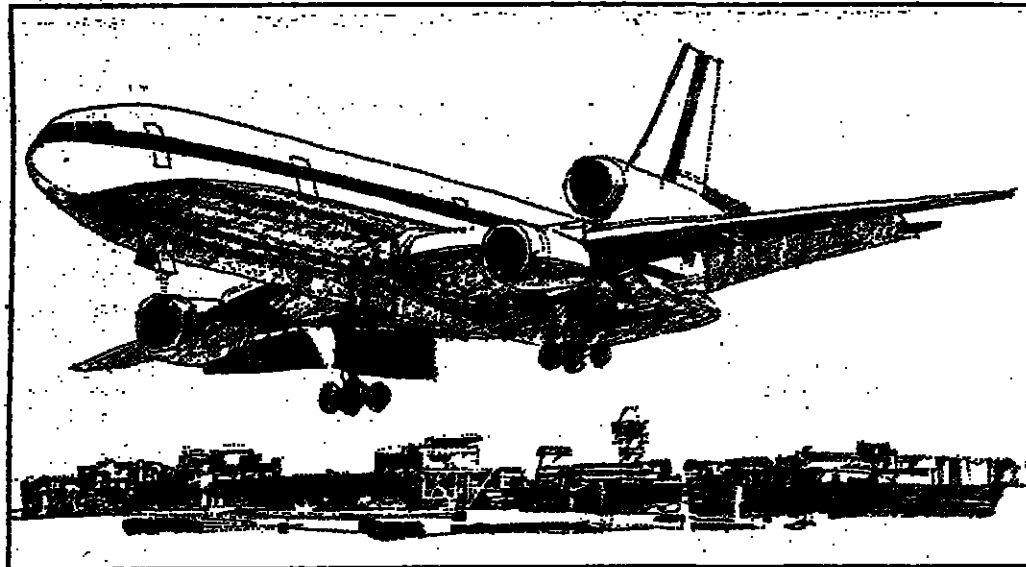
Banks are trying to team up with retailers to prepare for electronic funds transfer at the point of sale (EFTPOS)—a system which will eliminate the need for cash at supermarkets and department stores through direct debits of purchases from bank accounts.

On the corporate front, banks are using electronic technology to sell their cash management

As radical changes sweep through the banking world, the financial organisation of the 1990s may well be an institution which has a securities broking subsidiary, a retail network involving fewer costly branches and a greater number of electronic cash dispensers in banks and retail areas. It may also offer insurance services, plastic cards, travellers' cheques, money market funds and point-of-sale debit systems.

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CONTINUED ON PAGE XX



It's financing capital equipment exports through ECOD and government export programs of other countries.

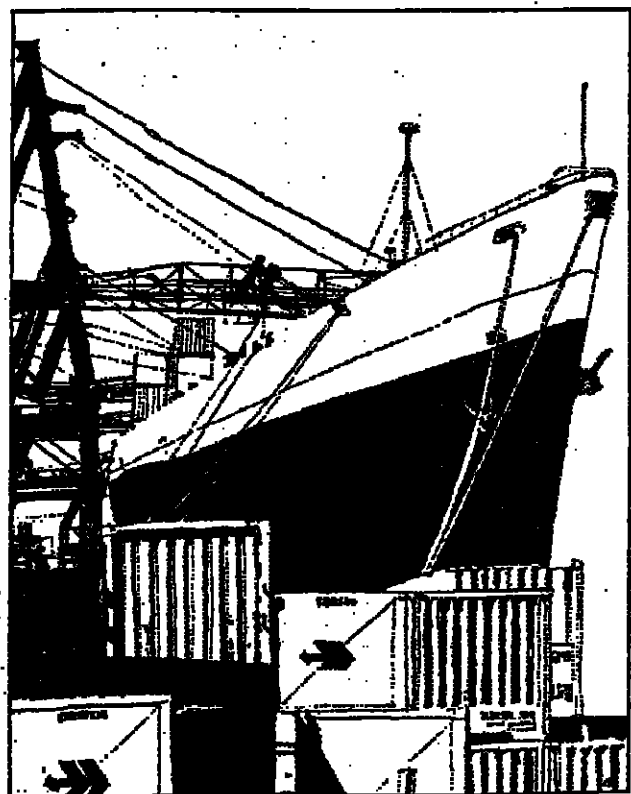


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## WORLD BANKING III

**CORPORATE BANKING:** changing requirements of business customers are being met by new services from the banks.

## Take-over arena makes money

## Mergers and acquisitions

DAVID DODWELL

THE INVESTMENT banks of the U.S. have made show business out of the mergers and acquisitions business, with factors like style and panache as widely talked about as the fortunes it earns them.

But a series of controversial multi-billion dollar deals over the past two years—most conspicuously the sometimes-failed four-way merger between Bendix, Martin Marietta, Allied and United Technologies—has left in its wake worries that the take-over business is getting out of hand.

At the same time, with Britain's merchant banks beginning to adopt practices developed in the U.S., a flurry of takeover activity in the UK has brought ripples of Wall Street's controversy across the Atlantic.

From within America's large banks have emerged business-hungry departments specialising exclusively in mergers and acquisitions.

In the vanguard, investment banks like Goldman Sachs, Lehman Brothers, First Boston, Lazard Freres, Morgan Stanley and Salomon Brothers have become wealthy on merger and acquisition work.

In 1982, the U.S. financial intermediaries earned \$230.5m engineering 93 mergers, and for underwriting 17 debt and equity offerings. The median fee was \$3.5m.

In the year's biggest deal, First Boston pocketed \$17.4m delivering Marathon Oil into the hands of U.S. Steel for \$5.95bn.

The First Boston's two star takeover specialists, Mr Joseph Perella and Mr Bruce Wasserstein, are understood to earn seven-figure incomes for their work. They played a large part in putting their bank at the top of the fee-earning league in 1982. First Boston earned \$38.4m billing clients for mergers and acquisitions. They were closely followed by Goldman Sachs, with \$34.9m.

What has caught public attention is not just the profits reaped but the gladiatorial style in which deals are fought and the fact that banks are becoming increasingly predatory.

tion is not just the profits reaped—fees are widely acknowledged to be a matter of what a banker can get away with, and understood to be in some cases as much as 10 times the expenses incurred working on a deal—but the gladiatorial style in which deals are fought, and the fact that banks are becoming increasingly predatory. Some deals have ultimately seemed to benefit no one but the investment bank itself.

Instead of waiting for clients to approach them, the investment banks have become increasingly sophisticated in identifying and initiating merger opportunities. Merger and acquisition work, once

in corporate finance departments, but the rapid growth of these departments, coupled with the increasing importance attached to merger and acquisition work, is notable. Morgan Grenfell—with S. G. Warburg the dominant force in UK take-over activity—has seen its corporate finance department swell from less than 80 to more than 100 in two years. A four-man merger and acquisition support group is the newest of the merchant bank has to the predatory departments of the U.S. investment banks.

Mr Graham Walsh, head of Morgan Grenfell's corporate finance activities, concedes that his staff make overtures

the U.S. Morgan Grenfell discreetly concedes that the work has been profitable—about two-thirds of the fee income of the corporate finance department. But Mr Walsh insists that department running costs have risen space.

Hill Samuel, perhaps typically, says merger and acquisition work is increasingly profitable—but more because of larger volume of business than because of ballooning fees. It also insists that it is impossible to disentangle fees for take-over work from fees for overall corporate financial services.

County Bank says fee-related earnings account for about half of the total bank pre-tax profit—and most of these are linked with merger and acquisition work.

For all this modesty, some fees can reach into seven figures. As with S. G. Warburg and Morgan Grenfell in the as-yet unresolved \$500m offer from ZTR for Thomas Tilling. Other deals, like the battle between Hanson Trust and Bassishaw for United Drapery Stores—worth around £250m—and the purchase of F. W. Woolworth by Farnsworth Stores for £100m, will also have brought handsome rewards.

So far, changes in the UK have brought at least one favourable result. Merchant banks, aware that the predatory activities of competitors have significantly raised the risk of losing even long-standing clients, have become measurably more attentive to a client. You have to simplify his confidence and assure him the advice he is receiving is the right advice," he said.

Even "upstarts"—like County Bank, the merchant banking arm of clearing bank National Westminster, which as relatively recent arrivals in the merger and acquisition business, must poach clients if they are to establish a presence—can not for once-only deals confined to takeover activity but for a board-based relationship in which merger and acquisition work is the first step on a ladder to providing a wide range of corporate financial services.

Perhaps it is for this reason that merger and acquisition work does not generate the fabulous profits talked of in

to non-clients with merger and acquisition ideas germinated inside the bank's walls. But he insists that the UK bankers' attitudes to such work remains qualitatively different from that of their counterparts across the Atlantic.

"In contrast with the U.S. this is fundamentally not a transaction-oriented business. What we are interested in is a long-term relationship with a client. You have to simplify his confidence and assure him the advice he is receiving is the right advice," he said.

Even "upstarts"—like County Bank, the merchant banking arm of clearing bank National Westminster, which as relatively recent arrivals in the merger and acquisition business, must poach clients if they are to establish a presence—can not for once-only deals confined to takeover activity but for a board-based relationship in which merger and acquisition work is the first step on a ladder to providing a wide range of corporate financial services.

Perhaps it is for this reason that merger and acquisition work does not generate the fabulous profits talked of in



Strong views on accounting practices: Lord Benson (left), an adviser to the Bank of England; and Lord Lever (right), who said that the unfolding of the international banking crisis has left the hidden reserves argument looking more and more like a "frollic on the margin."



The 15 months which have elapsed since the discussion have seen a dense mist arising over the question

## Hidden reserves debate runs out of steam

## Accounting practices

DUNCAN CAMPBELL-MITH

THREE wise men from the German Bankers' Association were among the many individuals whose views were considered by a House of Lords Select Committee in 1981-82 before it presented its report last year on banks' accounting practices in the EEC.

The desirability of allowing banks to maintain off-balance sheet reserves was a key issue for the report to address and detailed submissions were received from both parties to the debate. With commendable frankness, it was one of the three German bankers who pointed openly to the basic premise underlying the whole case for hidden reserves and the adulteration of banks' reported accounts which their existence implies.

"This might sound hostile from my side," he said, "but I think if you give someone information debate and difficult to understand who is not in a position to understand it, to work with it, that is more dangerous than to give him no information."

Most of their lordships who subsequently debated the matter took sides with the report in dismissing this argument and recommending the complete abolition of hidden reserves. Indeed Lord Benson, an adviser to the Governor of the Bank of England and himself an accountant, went so far as to reject the German banker's view as "totally repugnant."

The case for hidden reserves, as summarised by Lord Benson, amounts to the proposition that "depositors are such a bunch of ninnyms that the bankers are entitled to deceive them."

The 15 months or so which have elapsed since that debate, however, have seen a dense mist rising inexorably over the whole question as their close followers in the City, especially among the broking community, who have had to risk being treated, in Lord Benson's words, as a bunch of

—as indeed Lord Lever did in that same Lords debate—that the unfolding of the international banking crisis has left the hidden reserves argument looking more and more like a "frollic on the margin."

Consider, for example, the case of the UK clearing banks. They have long since abandoned their hidden reserves. But understanding the true position of their finances in 1982 has been made sometimes hopelessly difficult by the scale of their bad debt provisions.

Pressure from the auditors themselves could be one other important catalyst for change—but the fact is that most auditors take a distinctly detached view of the issue. Non-disclosure of reserves by a merchant bank simply earns the opinion, where appropriate, that the accounts "comply with the provisions of the Companies Acts applicable to banking companies."

Auditors continue to press for a systematic use of inner reserves such that the published results might present at least a representative trend. This could have made 1982 a testing time for the auditors had not the cleaners already relinquished their reserves. In the event it must have caused little difficulty in the case of the accepting houses, with their relatively limited exposure to the international problems of the last year.

Polite silence

The assumptions underlying these provisions, their specific allocation, the policy towards drawing on them for write-offs—such questions, the answers to which might point to the real degree of caution being exercised, have invariably met with a polite silence from the clearing banks.

One result of this has been to add to the unpredictability of the banks' results. It is not so much the question as their close followers in the City, especially among the broking community, who have had to risk being treated, in Lord Benson's words, as a bunch of

of major cash crops such as coffee, cotton and tea.

—Revision of the interest rate structure, and

—Rationalising and improving management of revenue collection to ensure that the Government revenue grows faster than its expenditure.

Under his national recovery programme, President Obote has promised legislation be passed to make more attractive incentives for foreign investors interested in private or joint ventures.

The plan lists incentives such as exemptions on certain import duty and sales taxes on machinery or materials not available locally and brought in by investors, a grace period before corporate taxes are assessed, freedom to repatriate profits, dividends and interest, tax holidays, and incentives for expatriate staff.

Recently, he assured Ugandans that the balance of payments situation was greatly improving as the country's foreign exchange earnings were enabling it to meet its foreign obligations.

And with that position the President is sure foreign investments and loans will be attracted to the "Pearl of Africa."

"These (foreign exchange earnings and meeting obligations) will remain the pillars of Government external resources mobilisation," President Obote said.

And maybe, after the Uganda Development Bank's efforts in the national recovery programme, will justify executives to take time out to celebrate the bank's 15-year anniversary in November 1987.

## ADVERTISEMENT

## UGANDA DEVELOPMENT BANK



Photo by Vincent Mugingo

Workers at the Stone Exploration Ltd. quarry, just outside Kampala, are shown processing gravel that will be used to rehabilitate many of Kampala's roads. The quarry was financed by Uganda Development Bank to a tune of US\$373,436 and has been operational since June 1982.

Uganda Development Bank's (UDB) ten year anniversary passed rather unceremoniously in November last year, perhaps because the bank's executives were too busy preparing development projects to celebrate.

It was just six months after the Ugandan Government unveiled a realistic, two-year U.S.\$558.5m national recovery programme with an additional U.S.\$180m in follow-up spending that would see the "Pearl of Africa" rise and shine again.

Clearly, at the anniversary, the writing was on the wall of the bank's main headquarters on Obote Avenue in Kampala, that UDB would be responsible for channelling most of the foreign aid into the recovery programme.

To date, the institution holds more than 20 per cent of the total loans granted to Uganda by international lending agencies.

Established in 1972, Uganda Development Bank opened its doors more than ten years ago against a backdrop of virtual economic chaos during the eight years of military rule.

Although the idea of establishing the bank was conceived in the late 1960s when the rich, fertile country had a budding GDP growth rate of 4.8 per cent, its first years of financing were largely relegated to sometimes whimsical, short-term loans in the commercial sector.

But soon after the 1980 elections that returned President A. Milton Obote to office after more than nine years of exile, the UDB's role was quickly transformed to become a "no nonsense" lending force to the recovery programme.

Holding the finance portfolio, President Obote gave priority to

get the bank back on the right track to identify and finance feasible public and private development projects geared to reduce the dependence on the country's foreign exchange reserves as well as utilising local natural resources.

Under-utilised foreign loans already in the country immediately were placed at the disposal of the bank.

The bank's initial share capital of US\$ 100m (approximately U.S.\$1m—1983 rates) was expanded in 1980 to US\$ 500m (U.S.\$5.8m) and even further to US\$ 2bn (U.S.\$20m) in 1982.

Middle to long term financing of development projects are stressed in the bank's newly formulated policies as well as quick disbursement of funding and closer government and institution aid co-ordination.

To date, UDB has more than U.S.\$150m from Western and Islamic monetary funds. These loans include lending funds of:

—U.S.\$28m African Development Bank line of credit for nationwide livestock and industrial rehabilitation projects,

—U.S.\$5m European Economic Community line of credit for the rehabilitation of a farm implement manufacturing plant and the development of small to medium scale industries,

—U.S.\$20m World Bank line of credit for industrial development and rehabilitation,

—U.S.\$7.5m European Investment Bank line of credit for industrial development and rehabilitation, and

—U.S.\$15m OPEC fund line of

credit for industrial development.

The World Bank and the European Investment Bank, recognising UDB's need for a cash injection to improve its absorptive capacity, also extended the bank U.S.\$10m and U.S.\$2.5m respectively to improve its capital base.

The Islamic Development Bank, over the years similarly has committed:

—U.S.\$1.14m to finance the feasibility studies of a sheet glass plant, a third cement factory and a major road connecting some of the northern region's more remote towns,

—U.S.\$1.8m line of credit for the purchase of more than 30,000 bicycles,

—U.S.\$4.9m line of credit for the rehabilitation of Kampala's (Uganda's capital) water works, and

—U.S.\$3.7m loan to purchase gypsum, paper bags and steel bales for a UDB-financed cement factory, and

—U.S.\$6m line of leasing for medium scale agro industries.

Other Islamic sources include: —U.S.\$30m from the Saudi fund for the development of agricultural and livestock projects, and

—U.S.\$25m from the Kuwaiti funds for the development of ranching and mixed farming.

Recently, the bank requested BADEA officials to review a 1978 fisheries and poultry project, with hopes of reactivating it.

While Uganda Development Bank officials hope to disburse 50 per cent of its funds on hand this year, they readily acknow-

ledge the bank will have to expand — even further — its absorptive capacity.

They say for every U.S.\$100 received in development loans, the banks needs to put aside the equivalent of U.S.\$20 in Ugandan currency as back-up capital.

A. K. Mawanda, UDB's General Manager, said while the bank is seeking additional development loans it is also seeking specifically directed cash injections to be used as back-up capital.

"Without these cash injections to strengthen our capital base we can be put back into the pit we have been struggling to get out of—namely—not being able to absorb the loans," he said.

He noted that some development projects have been delayed due to lack of back-up capital for appraisals, customs duty and the like.

Mawanda is confident that loans will continue to be committed, the recovery programme will be financed smoothly and that Uganda's potential as one of the strongest economies in Africa will be realised.

President Obote, who monitors UDB's progress closely, is at the heart of the recovery programme and is enjoying international approval of his already outlined fiscal and monetary policies.

Already he has introduced major policies to strengthen Uganda's economy including:

—Floating the Ugandan shilling to find a realistic level with major foreign currencies,

—Removal of price controls,

—Increasing producer prices



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	1982	1981	1980
Net worth	43.1	30.1	14.5
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Loans	217.2	213.9	143.8
Total assets	540.6	425.6	300.0
Contingent accounts	352.6	276.0	197.0
Net profit	12.3	9.2	6.6

Amounts expressed are in millions of Egyptian Pounds

Shareholders: Banco Misr, The First National Bank of Chicago, Banco di Roma (Holding) SA, UBAF Bank Ltd, Europartners (Holding) SA, Luxembourg, Mitsui Bank, Misr Insurance Company.

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## WORLD BANKING IV

**CORPORATE BANKING:** aside from specialist activities, merchant bankers aim to keep the wheels of industry moving

# Common link in provision of funds

## Merchant banking

TERRY DODSWORTH

WHEN THE spotlight falls on the complex arena of merchant banking it is usually to pick out two of its gladiators locked in battle over one of their corporate clients. But the glamorous business of mergers and acquisitions is only the most visible side of a merchant bank's corporate work. Behind the scenes, the conglomeration of services marshalled by the banks is still directed—as at the birth of the system—at keeping the wheels of trade turning and industry supplied with funds.

While there is a very high degree of specialisation among the different banks, most rely on corporate clients for the main base of their business. For a few, fund management may be equally important; there are also some exotic variants. Kidswort Benson, for example, has generated a major contribution in recent years from Sharpe Plessey, its gold dealing subsidiary, which in some years has probably accounted for more than half its profit. But one way or another the link that binds the merchant banks together is their common role in procurement or provision of funds for the corporate sector.

It is sometimes difficult, indeed, to spot the dividing line between the purely merchant banking activities aimed at corporate clients and the other banking services. Corporate finance departments in the UK are by definition designed to exploit the merger, acquisitions and new issue markets; but the rest of a typical bank may well ride in behind the corporate financiers to sell their services. Even an investment management division may be running pension funds for the medium-sized companies that prefer not to operate their own. A currency dealing room provides expertise that may be an essential element of an overseas project.

The essence of merchant banking, however, is that the type and mix of services is changing all the time. Each bank is a very different animal—much more so than the High Street clearing banks—and success depends on responding rapidly to the special needs of the corporate clientele. Traditionally, the core of the banks' activities is in overseas trade financing, based on the acceptance of bills drawn on London, and this continues as a steady source of business for the banks, along with trade confirming—confirming foreign orders from British manufacturers, shipping the products and securing payment. But the relaxation of the regulations over acceptance of bills has made this a more competitive business and the merchant banks' position has probably slipped as they have switched attention to more specialised areas.

One new function which has developed rapidly since the war is project finance, a sophisticated modern variant of the trade credit system which merchant bankers created to finance commodity trading in an earlier era. This is aimed at catering for the huge infrastructure contracting programmes that are now an essential element of exports to the developing world. It is a sign of the much more integrated world trading community of today that the banks sometimes find themselves acting for foreign as well as British contractors.

## Syndicated

Unlike normal international trading, these programmes require long-term finance and are so large that they demand some sort of syndicated banking organisation to supply the funds. The syndicate is a mixture of currencies to match either the kind of products that are being acquired or the interest rate structure of the deal or the foreign exchange reserves of the client. Some of the banking specialists in this area manage the business from London; but a number of banks are now putting down a permanent presence overseas. Morgan Grenfell, for example, has established a widely-based foreign network over the past 15 years.

A transaction of this nature the merchant bank acts as both a provider and procurer of finance: some of the funds may come from its own resources but by far the larger proportion is procured from other banks. Similarly in the Eurocurrency field a bank may be acting in such a dual role in providing the enormous syndicated credits



Traditionally, the core of the merchant banks' activities is in overseas trade financing.

which have become an important feature of financing for the big international corporations over the past few years.

Indeed, the Euromarkets, with the equally swift development of Eurobond activity, have provided the circumstances for considerable changes in the merchant banking community. A newcomer like County Bank, the NatWest subsidiary, for example, has quickly developed its presence alongside the older houses by pushing rapidly into this field and using it as a spearhead for its other activities.

On the provision side of the equation, the banks have also been active in recent years in developing leasing—a particularly useful source of funds to small and medium-sized companies in a growth phase, when they have a clearly visible product but are short of development capital.

Similar help to smaller growth companies is also available through venture capital projects, where equity is injected by a bank which may later bring the company to the stock market. The development of the Unquoted Securities Market in London has recently given an extra stimulus to this kind of project. The merchant banks' strength in these financing packages is that they tend to have a degree of specialisation—and therefore flexibility—which the commercial banks are less capable of providing. Few merchant banks would be in a position to replace their larger rivals in the provision of large-scale funds but they have more expertise available to switch clients into different instruments depending on their circumstances.

In the toughest period of monetary controls, in recent years, for example, a form of short-term financing through internal bills of exchange was quickly expanded to avoid restrictions on bank credit. Basically self-liquidating, essentially short-term instruments, the bills were not meant to replace other forms of short-term finance and have now declined in importance, but they illustrate the way a short-term expedient may become important.

The bank's role as procurer of funds is most visible in the new issue business—a role which was developed rapidly in the 1980s. It is in this field that one of the most striking examples of the changeable nature of merchant banking can be seen. A great deal of the time of several banks in the past three years has been taken up in work on the privatisation of large tracts of the nationalised sector. This could reach its culmination in the offer of British Telecom to the public—a move of exceptional scale and complexity. But if the Conservative Party fails to win the next election this source of employment will dry up completely—and the banks will have to go off looking for alternative sources of corporate business.

Leasing has become a popular means of corporate finance

## Area of political controversy

### Leasing

DAVID FREUD

OVER THE last couple of decades the financing techniques of leasing have expanded rapidly within the package of services offered by banks to their corporate clients round the world. And in no other sphere has the business of making money available aroused such a strong backlash. In the U.S. in particular, leasing has aroused fierce political passions and legislative tax bills alternatively encouraging and discouraging the technique. In the UK too the practice has been subjected to a series of legislative changes.

Essentially leasing is a device whereby the ownership and utilisation of an asset is separated. Just as increasing specialisation has brought economic benefits in other areas, there can be advantages in this financial separation to both parties in the transaction. To the user, the lessee, a lease represents a source of medium-term finance that allows rental payments to be tailored to cash flow. For the lessor, a lease allows in effect for a specific security to be given on sums lent. There are various other attractions; for instance, in some countries the assets used by the lessee can be kept off the balance sheet, thereby making capital gearing appear lower than it really is.

But the attraction that has been critical in encouraging the rapid growth of leasing has been the associated tax benefits. On this front, the UK offers the simplest example of how the mechanism works. Since 1972 UK tax legislation has allowed the lessor of assets to reduce their taxable income by a full 100 per cent in the year of purchase. Businesses which would not normally buy anything like enough assets for their own use to match their profits, and in particular the banks, soon began to buy assets and pass them over for the use of the manufacturers through a leasing agreement.

### Incentive

In practice this meant that the investment incentive was shared, through the leasing rates, between the lessor who was deferring his tax liability until he had to pay tax on his rental income and the lessee for whom the rental would be very much lower than the interest rate burden of buying outright if he did not have taxable capacity of his own.

While the UK clearing banks may have started leasing with the sole motive of sheltering tax, this is probably no longer the case. The banks claim they pass on the whole of the benefit to lessees—a claim which

the Bank of England accepts in which case it would make little difference to their net earnings whether they chose to pay the tax liability. But now that the business has developed it is an important part of their portfolio of services to customers and one in which they compete aggressively with each other. A bank that pulled out would find itself at a competitive disadvantage.

The tax benefits of leasing may be nowhere as clear-cut as in the UK. Nevertheless, they exist wherever tax credits for investment can be transferred and where depreciation rates accepted by tax-gathering authorities are faster than the true rate of depreciation.

### Turmoil

Leasing in its modern form originated in the U.S. and owes its growth there less to tax concessions than has been the case in the UK. But over the last two years tax changes have thrown the whole industry into turmoil. The 1981 Economic Recovery Tax Act in America made it much easier for a lessor to retain tax deductions on passing over equipment for the use of a lessee. This legislation, opening the door to what was called "safe harbour" leasing, generated a huge volume of deals in which commercial and industrial companies rather than the financial institutions were at the forefront.

The political furor over safe harbour leasing was based on the sheer volume generated—with estimates that the provision could result in tax reductions totalling \$41bn over a five-year period—the high rental obtained by lessors and the excessive amount earned by middle-men. So in the following year—1982—the Tax Equity and Fiscal Responsibility Act returned the legislative framework towards what it used to be.

Under these provisions a lessee cannot have any equity interest in the property, while the fact that the title is with the lessor does not guarantee that the transaction is a lease. Two important criteria are that the transaction has a bona fide business purpose and that the lessor retains a substantial proportion of the burdens and benefits of ownership.

At the same time Congress introduced a new form of tax-benefit lease as compensation for the loss of the safe harbour rules to take effect after 1983. This is the so-called finance lease. Under this, a lessor may lease "eligible property" to a lessee, in which the lessor must reasonably expect to make a profit apart from any tax benefits. No more than 50 per cent of a lessor's tax liability may be offset by benefits from a lease, while from the lessee's point of view not more than 40 per cent of property put into use in one year may be subject to a finance lease.

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The major exporting countries are once again locked in argument over export credit rates.

## Recurring problem needs lasting solution

### Export finance

MARGARET HUGHES

ONCE AGAIN the world's major exporting countries have failed to agree terms for renewing the so-called gentlemen's agreement on export credit rates. Talks in Paris last month between the 22 members of the Organisation for Economic Co-operation and Development (OECD) broke down after two days because of serious differences both within the EEC and between it and the U.S. and Japan.

The consensus sets minimum interest rates charged on officially supported export credits to recipient countries as well as minimum downpayments which the borrower has to pay and maximum loan repayment periods. The rates vary according to three classifications of country based on national per capita income.

The overall impasse remains much the same as always, although the arguments have changed with the general decline in international interest rates since last summer, when after much autonomy new consensus rates were agreed which raised the rates for the two richer categories of country.

Ever since its inception the dispute within the consensus has been over whether rates should be raised and if so by how much in relation to market rates. The central issue has been the burden of interest rate subsidy whereby governments make up the difference between export credit rates and commercial rates. Last year it was estimated that such subsidies cost the governments of the main exporting countries some \$60m. The British Government's bill last year amounted to some \$58m.

But this time the debate is over how much consensus rates should be lowered, for with the lowering of interest rates since last summer export credit rates, at least for the better-off borrowers, are either parallel with or below market rates, even in the U.S. and Britain. The only countries where domestic commercial rates are higher than consensus rates are France and Italy.

The present consensus rates are 10 per cent for the relatively poor countries (based on World Bank and IDA poverty criteria), of which there are about 70; 10.85 to 11.35 per cent, according to the length of the repayment period, for intermediate countries; and 12.15 to 12.4 per cent for the relatively rich countries—42, those whose national per capita income is \$4,000 or over.

During last month's negotia-

tions the EEC proposed that the existing rates be reduced by between 0.5 and 2 per cent—with the French, with high domestic rates and a traditional penchant for subsidy, pushing for the bigger cut, backed by the Italians. The EEC proposed the 2 per cent as its opening gambit, though within the EEC there is a wide divergence of views. The W. Germans and Dutch, backed by the Danes, want at most a 0.5 per cent cut, while the British are somewhere in the middle, opting for a 1 per cent cut but with perhaps a bigger drop on rates to the poorer nations.

These suggestions were rejected out of hand by both the U.S. and the Japanese, with the latter calling for a reduction, resisted by the others, in the premium which it has to charge on its export finance. At present the Japanese have to charge a margin of 0.3 per cent over the blended rate of its export credit and commercial credit which make up the conventional Japanese export finance package. The U.S. usually wants to eliminate subsidies altogether, so would like to see export credit rates in line with commercial rates, though it would like to offer maturities which are longer than those allowed by the consensus.

### Compromise

In an attempt to get its 2 per cent cut accepted, and perhaps like everyone else weary too of the eternal wrangling, the EEC has come some way towards the American insistence that export credit rates should directly reflect the market rates in the exporting country and as such be adjusted automatically with a compromise proposal.

It suggests a semi-automatic system whereby the consensus matrix of rates would be adjusted at fixed intervals to reflect any changes in commercial rates. The benchmark would be the weighted average of the interest rates of the currencies in those countries participating within the consensus or alternatively those currencies which make up the IMF's special drawing rights.

An additional dispute this time is the U.S. call for an increase in the down payments which the relatively rich countries are required to pay. It wants the present level of 15 per cent raised to 40 per cent. The U.S. also wants to eliminate the financing of local costs. These proposals are seen as another attempt by the U.S. to curb subsidised credits to the Soviet Union and other East European nations.

The U.S. achieved some tightening up of credits to the Soviet Union during the last round of negotiations. When the present consensus interest rates were finally agreed at the end of last June after two

months haggling so too was a reclassification of borrower countries—for the first since 1976. Some countries, such as Algeria, Brazil, Chile, South Korea, Mexico and Nigeria, many of them major buyers of planes and equipment, were upgraded from the poor to intermediate category. But also upgraded from intermediate to relatively rich countries were the Soviet Union, along with East Germany and Czechoslovakia, raising both the interest rates which they had to pay on export credits and shortening the repayment period.

The U.S. had initially attempted to achieve a freeze on all subsidised credits to the Soviet Union as part of its embargo following the imposition of martial law in Poland. But after receiving a hostile response to this (on top of its attempts to block supplies of European equipment for the Siberian gas pipeline project) the U.S. then pressed for quotas for credits to the Soviet Union based on historical performance. This proposal was also rejected by the other trading partners but prompted a counter proposal by West Germany that down payments should be increased—a proposal which the U.S. has now put forward itself in the present round.

Whether this gains much support remains to be seen. Apart from the upgrading of the Soviet Union as part of an overall reclassification—which has made borrowing more expensive for the Soviets—all the U.S. got from its Western partners at the Versailles summit was a somewhat ambiguous commitment to commercial prudence in lending money to the Soviet Union—ambiguous because it has been left to each government to judge what is prudent.

As it happens there has been a reduction in lending to the Soviet bloc but that has perhaps more to do with bank caution arising out of the Polish and Rumanian foreign debt situation.

The same applies to many of the Western world's main export markets such as Latin America and Nigeria—all grappling with economic crises with resultant cutbacks or delays in development projects and thus export finance opportunities.

At the same time banks and export credit agencies alike are hampered by the high levels of their outstanding debts in such countries or credit ceilings which cannot be raised in the present environment, however much for their different reasons—jobs in the one case, lending margins in the other—they may want to keep the doors open to these export markets.

Debt rescheduling is as much about keeping the banks in business, and people in jobs in developed countries as saving the developing world's economies.

The international horizons of portfolio management are potentially breathtaking

## London banks see portfolio boom

IT ALWAYS seems to come as a surprise to an indigenous investment community to learn that fund managers abroad are prepared to take more than a passing interest in the prominent stocks which make up that local stock market.

Note the recent Wall Street interest in the likes of Imperial Chemical Industries and Glaxo. Note, too, the important positions which New York arbitrageurs are taking in salient UK bid contests such as Anderson Strathclyde and, if rumour has it right, in Thomas Tilling.

Surprise there may be, but the professionals who make up the bourses of every sophisticated financial capital know full well that investment in times of relaxed exchange controls and erratic currency movements has become a truly international exercise. More to the point, the universality of investment management is sure to increase.

International portfolio management is a sphere which the investment and merchant banks are coming to dominate. It is not enough these days to look solely to act for domestic clients. The international horizons are potentially breathtaking. Not only is there a vast source of additional fees to be tapped but international investment surrenders more knowledge of international trade and puts domestic investments in a fitting global context.

The ability to talk knowledgeably, and invest accordingly, about U.S. defence industries, Japanese electronics, West German vehicle production or UK composite insurance is no longer an ancillary service for clients but a pre-requisite of an

all-round international product. The rewards for bundling this type of expertise, stamped and labelled with the right type of investment track record, into an acceptable portfolio package are coming to London in general and the merchant banks in particular.

There are two prominent reasons why the London accepting houses should look forward to a vast expansion of funds under their management. The first is due, as much as anything else, to language, history and geography.

London investment managers can be as parochial as any others but it is a matter of history that many of the leading companies which make up the stock market have always traded throughout the world. True, much investment was concentrated in the Old Commonwealth, but the gradual harmonisation of the European Community and the abolition of exchange controls have seen an outpouring of UK investment funds.

It is a coincidence of geography that Greenwich Mean Time is the best halfway house between differing time zones and it is additionally helpful that the professionals of Wall and Throgmorton Streets share a common language.

And the merchant banking fraternity is truly international. For all that the London Accepting Houses are determinedly UK owned, these banks include on their extensive client lists, sovereign states, overseas utilities and blue chips.

But the thrust of the growth of international portfolio management has come from the

U.S., not from Wall Street but from a federal law, the Employment Retirement Income Security Act (ERISA), which compelled fund trustees to seek the best global return on the funds with which they were entrusted.

That meant that investments outside the Dow-Jones had to be considered, be it real estate, energy, management buy-outs, or ICI, Peugeot, Mitsubishi, BMW or, simply, the pound, the yen or the deutschmark.

Word has spread, and is spreading rapidly, among U.S. pension fund trustees. Wall Street and other indigenous investments are not necessarily the best place to commit 100 per cent of a fund. Ergo these other options must be explored and, where feasible, traded.

The opportunities are undoubtedly around but it would be quite wrong to suppose that ERISA has somehow laid a golden egg for the London merchant banks. Quite the reverse.

None of the principal banks—Morgan Grenfell, Warburg, Kleinwort Benson, Shroders and Barings among them—have carved out a name for themselves without an extensive overseas representation, more often an overseas partnership or joint venture and a long hard sales slog. Quite simply, the successful portfolio management have had to learn exactly what the client wants.

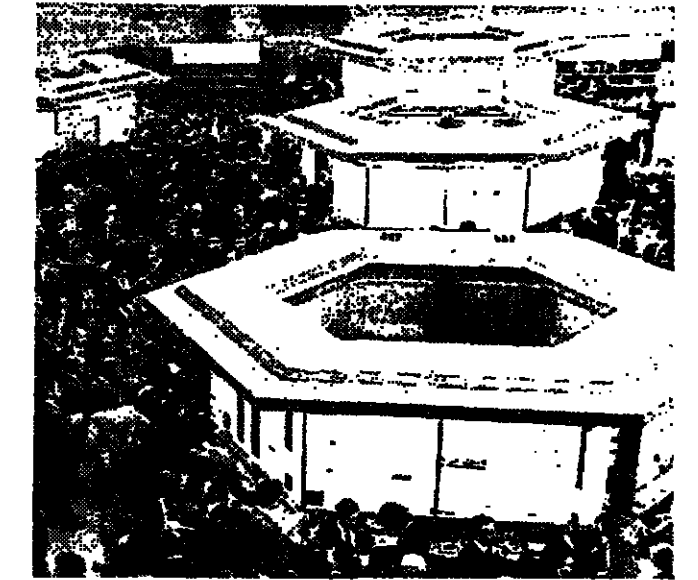
The list of the big ERISA fund management houses is by no means confined to the five merchant banks listed above—or indeed to the accepting houses, Ivory and Sims and G.T. Management have a substantial

and growing niche, too—and the number of entrants, actual or potential, is growing almost daily.

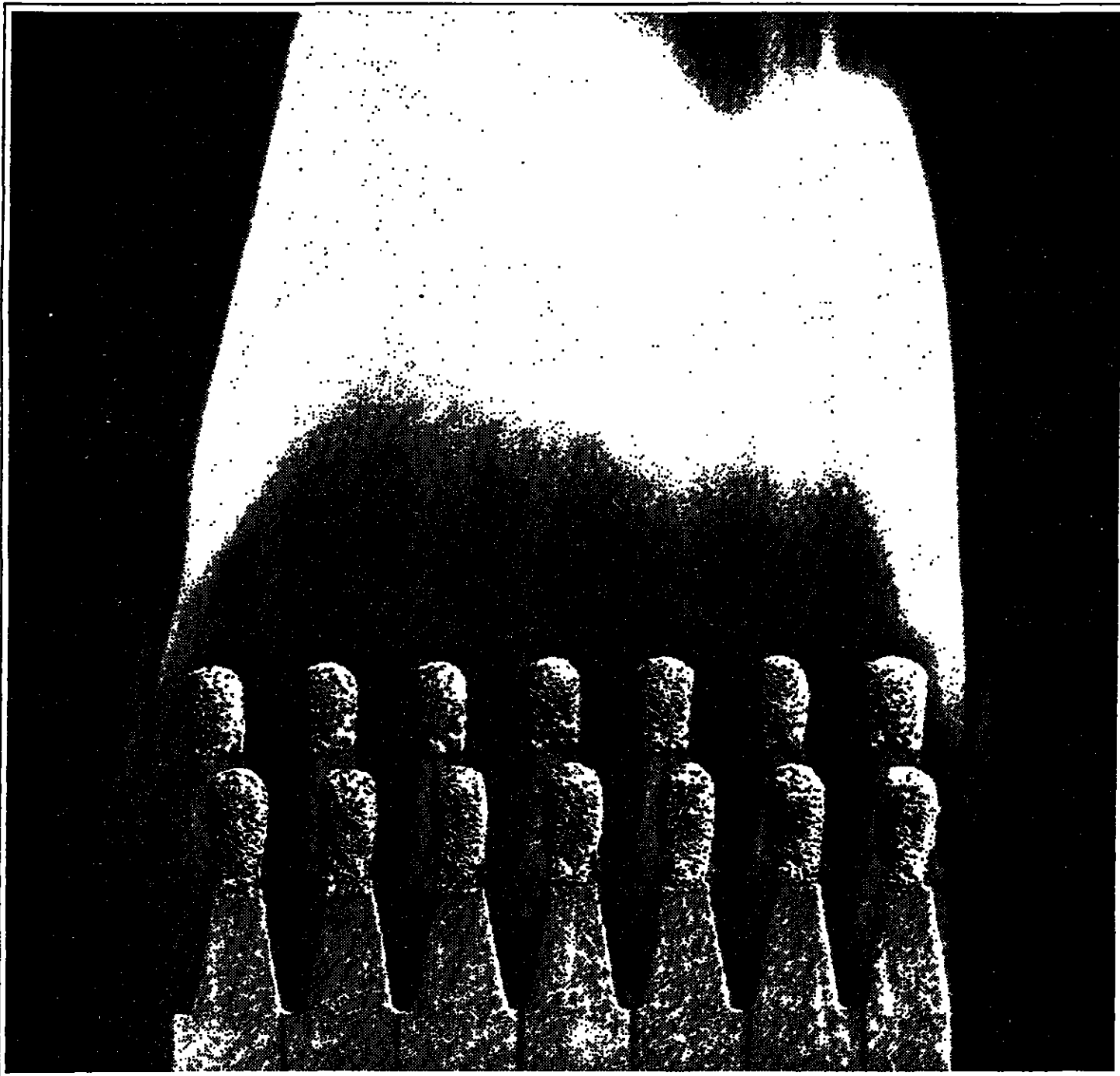
It is not hard to see why. The ERISA funds must now total substantially in excess of \$50n and American corporate monoliths such as AT and T and Exxon are also committing some proportion of their pension funds overseas, too. And it seems, thus far, that only the most sophisticated international companies are taking the plunge and hiring international portfolio managers.

If the vast hinterland of industrial America follows suit the pickings will be rich indeed. The banks which have already taken the initiative stand to gain substantially in power and prestige provided they meet their target returns. ERISA is a relatively young phenomenon—although the track record is not yet established, few doubt that the rewards will be fully earned.

Ray Maughan

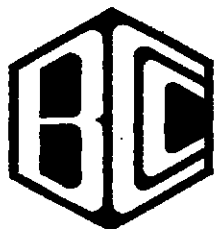


A section of the crowded floor of the London Stock Exchange. The City's investment managers can be as parochial as any others, but it is a matter of history that many leading companies which make up the stock market have always traded throughout the world.



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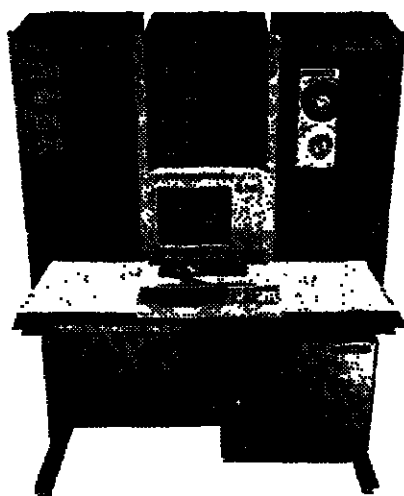
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**WORLD MARKETS AS THEY MOVE**

## WORLD BANKING VI

Rapid changes are enabling the banks to revolutionise their internal information systems and the services they offer

### Swift progress in cash management

#### New technology

ALAN CANE



Peter Golden... surrounded with Apple microcomputers at the City Bank, Aldwych, London.

MR PETER GOLDEN, as pictured here, is neither a microcomputer salesman nor is he standing in the store-room of a microcomputer shop. He is in fact head of the technology management unit attached to the treasury group at Citibank in London and he is standing in the machine room which provides computing power to the bank's main dealing rooms.

It is a far cry from the conventional picture of a big bank's machine room—the size of a small aircraft hangar and filled with row after row of large boxes—processor cabinets, fast memory stores, high speed disc drives and it illustrates graphically the way computer technology is changing and changing banking practice with it.

Each of the slim boxes fitted with a keyboard in the picture is a small but powerful microcomputer—they are all Apple II machines—in fact, a micro which is getting long in the tooth but which offers well-proven performance and reliability.

#### Objectives

Rather than putting in a mini-computer or a small mainframe to provide the power, Mr Golden and his team have used lots of Apples—there are almost 100 of them in the building—linked together (Zygar did the networking) to form a complete system.

The idea is to provide fast and accurate information to the dealers in the two dealing rooms—interbank dealing and commercial foreign exchange.

The system has three principal objectives—to support the dealer by providing information of value in a way which is simple to use and to capture deal data; to support treasury management by providing concise reports and clear positions; and to provide support to treasury operations through printed tickets, single point of deal capture, and elimination of the maker/checker requirement.

Each dealer has his or her own Apple—it lives quietly in the bottom drawer of the dealing desk and feeds its information to one of the three Reuters screens in front of each dealer. Keyboards are not used; instead, the dealer selects what is wanted from a menu tablet secured to the desk top—a touch of a special pen on the desired item brings it to the screen.

#### Scores

The acid test is whether the dealers, notoriously scornful of high technology aids and unwilling to emulate clerks by keying in their own deals, are happy with the system.

At Citibank the answer seems to be "yes." One dealer said: "It provides the information I need and it is simple to use."

Now there are plans to market the system. Mr Peter Gallant, head of Treasury Marketing, says: "We are bankers, we will deal in anything." At present the system interfaces to Citibank's own brand of back office accounting system and Mr Gallant plans to develop a series of interfaces to make the system compatible with the popular commercial

packages like Midas, Arbet and Kapitl.

The Citibank development illustrates four facets of modern technological banking:

① It is true distributed processing; the bank is using complete commercial microcomputers simply as operating elements of a complex data processing system.

② Like many banks and other financial organisations, Citibank has discovered that it has technological expertise to sell and intends to capitalise on that.

③ There is general agreement that the dealing room is a priority area for automation; despite considerable investment in foreign exchange systems there seems to be plenty of scope for improvements.

④ There is increasing evidence that the banks see the need to tie their various computer systems together into integrated networks.

There is no doubt that the pace of acceptance of electronics in banking is quickening. Two years ago Mr Keith Hurdley, chief executive of Hurdley Associates, a New Jersey-based banking consultancy, identified the key developments he expected in "wholesale banking technology."

They included integrated information systems where data base and data base management systems are tied together to provide information to on-line applications, internationally distributed data base systems—the means for the manager of, say, a Far East branch to examine the bank's position world-wide from a terminal in his office.

He also foresaw the rapid development of international banking communications networks, money transfer systems to process messages transmitted through the national and

international wire transfer networks, and corporate cash management systems— "electronic links between the banks and its corporate customers" as one computer specialist put it.

Of all the areas, cash management has shown the most spectacular progress. Citibank was among the first with Citi Cash Manager (for dollar accounts) and then Citi Banking, which provides multi-currency cash management service including balance summary, account statement and advice, money market securities and cash availability projection summary and details.

The other large U.S. banks—Chase Manhattan, Bank of America, Chemical, Morgan Guaranty—all have their own offerings. Chemical, indeed, is perhaps the best example of the trend to the franchising of electronics expertise among the banks.

#### Franchised

Its Chemlink cash management system is the foundation for Banklink, a package which it has now franchised to a number of other banks including First Interstate of Washington and Banc One of Columbus, Ohio. Among European banks its customers include Commerzbank of Frankfurt; in the UK Barclays and the Bank of Scotland are expected soon to announce services based around Banklink.

These systems allow customers to keep track of their cash in all their accounts worldwide and indeed to "outbank the bankers." Where is the profit for the bank? There is precious little in the fees, for these are often nominal—less than \$1,000

a month in most cases. There is some revenue to be made too from providing clients for the large commercial data networks, such as Geisec's Mark III which provide the communications for cash management.

But the hard fact is that for most banks cash management is a necessary simply to stay in touch in the technology club. Without such a system the door to lucrative business could simply be closed to them.

What is exciting most interest now is integrated systems—all the banks' major applications running on information provided from a common pool of data.

To be frank, such complex software is only in the earliest phase of development. Some banks are developing their own; more commonly they are turning to software houses like Anacom of Indianapolis and Hogan Associates of Dallas.

Some idea of the risks involved in the development of this software is the fact that both Anacom and Hogan set up partnerships with leading banks to raise development costs.

Anacom, for example, last year announced a massive research and development partnership to fund its Corporate International Banking System (CIBS). Some \$23m has already been subscribed; the total cost could be \$50m.

The world's leading banks have to stay in the technology race—but nobody is pretending the costs—or the risks—will be low.

\*Wholesale Banking Information Systems Market, Frost and Sullivan, 1981.



RESTORED DAY AT THE BANK.

New technology is sweeping away the old image of the banking world, typified here by a drawing of dividend day at the Bank of England in 1842. Today, according to one senior banker, "the banking world is now facing an electronic earthquake." The Financial Times examined these developments in "Electronics in Banking" on Wednesday, March 30, 1982, and "Computers in Banking" on Monday, April 11, 1982.

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New operators continue to move into the market place in a sector dominated by U.S. demand for the services

## Building societies join in

### Travellers' cheques

JEFFREY BROWN

FOR A CASH transfer system reportedly facing redundancy at the hands of the credit card, the traveller's cheque business looks remarkably healthy. American Express has just put the finishing touches to its new \$35m cheque headquarters in Salt Lake City; banks report steady growth in demand and the market place continues to absorb new operators.

Over the past 12 months or so the spate of stories have centred on Europe, with the troubles at Thomas Cook, the travel services offshoot of the Midland Bank, and entry into the travellers cheque business of a number of UK building societies. But the great bulk of the cheque business continues to be transacted on the other side of the Atlantic, with dollar travellers cheques accounting for at least three-quarters of the global total.

America's banking regulations—limiting individual banks to trading within strictly defined state lines—underpin an extensive business in traveller's cheques in the U.S., variously estimated at between \$35bn and \$40bn a year. Most cheques, something like two-thirds, are for purely domestic consumption as customers seek to ease a degree of national co-ordination into their banking

system. The recent rescue of Sea-First Corporation by Bank of America may have created a precedent and allowed the first-ever inter-state bank acquisition in the U.S. but for the moment banking regulation in America remains deeply entrenched. Against this background American Express for one sees little or no let-up in the expansion and growing sophistication of the traveller's cheque business.

Banks are sensitive about market shares and claims on this score by both the industry and outsiders vary alarmingly. But American Express is generally reckoned to be the largest trader, with around half the world market. Bank of America and Citicorp are other major players while in Europe the big league in traveller's cheques takes in Barclays Bank and Thomas Cook.

Breaking with traditional policy to operate alone, American Express has linked up recently with banks in France and in West Germany. In the UK it has created Travellers Cheque Associates, a company whose shareholders initially took in American Express and Lloyds Bank but which now extend to Williams and Glyn's and Royal Bank of Scotland.

TCA, as Travellers Cheque Associates is known, does not disagree too vehemently with the suggestion that it controls close on a fifth of the UK traveller's cheque market, worth perhaps \$2bn a year. Helped by aggressive marketing and starting from a small base, Lloyds Bank

claims to have stepped up its travellers cheque business by a fifth in 1982, thanks to the sophistication of product that the American Express connection has brought.

Elsewhere in the UK, the National Westminster group issues its own cheques and so does the Midland bank, essentially through Thomas Cook, despite attempts to create a European cheque network. Barclays Bank provides the main international counterbalance to Lloyds' services through its links with Visa International.

### Broadened

But the UK market has broadened significantly last year following the entry into the business of a number of building societies, notably the Leeds Permanent and the Leicester. The former has joined in with Travellers Cheque Associates, while the Leicester has linked up with Citicorp.

The building societies have been widening their services and the Leeds Permanent, fourth largest in Britain, is the biggest building society yet to go in for travellers cheques. Last summer it began to issue sterling cheques free of charge to customers. The Leicester deal is equally free of commission to the customer. It provides dollar cheques.

In the UK the building societies have added to the rising tide of competition. Many observers see their move to offer cheques free of sale commission, normally 1 per cent, as an initial marketing ploy aimed at getting the business off the ground. What over their motives customers

can only benefit.

People who buy traveller's cheques are in effect giving the issuers an interest-free loan which the issuer then invests as profitably as he can based on estimates of how long he will retain the money. At the end of both 1980 and 1981 American Express had around \$2.5bn of cheques outstanding. The returns available on their loan float in a period of high interest rates has provided the banks with good profits on traveller's cheque operations in recent years.

The main way issuing banks compete with each other is in the terms they offer the selling agents, usually other banks. The variables are a share of the commission, discounts on the volume of business and deadlines for remittance which in effect lets the agent use a slice of the loan float.

Some banks in the U.S. have even toyed with the idea of paying interest (of a nominal character) on traveller's cheques; in some U.S. states prizes for bank tellers selling the most cheques are normal practice and everywhere the name of the selling agent is given every available commercial plug.

But the major battleground remains Europe, especially continental Europe, where the market is much less mature than in the U.S. and UK. According to one clearing bank, around 70 per cent of travellers outside the UK take some form of traveller's cheque with them. In contrast, European visitors to the UK make more use of cash. Less than 25 per cent of Continental visitors to this country use traveller's cheques.

At one time the Midland Bank looked on the point of a breakthrough in the European market, with Thomas Cook poised to link up with a number of German banks through major new shareholdings. But the deal fell through, although the European banks concerned have agreed to let Thomas Cook re-design its cheques with the ETC (European Traveller's Cheque) logo.

The struggle for market share has spread in recent months beyond France and Germany. Salford Openheim, a more sophisticated user of traveller's cheques and it is a market on which many cheque groups have begun to focus their sights.



More than 2m Access card sales vouchers are debited to cardholders' accounts each week. Operators, above, check-out over 25,000 authorisation calls from retailers to the Access nerve centre at Southend-on-Sea, Essex.

The main thrust appears to be at the top end of the market

## A good year for plastic money

### Credit cards

JEFFREY BROWN

LAST YEAR was one of the best ever for the credit card business—and it looks as though 1983 is capable of maintaining the heady pace. Interest rates fell steeply world-wide last year and retail spending picked itself up off the floor in a number of leading economies. The various card groups have continued to expand their membership.

In the UK alone last year the number of plastic cards of all kinds—credit, travel and entertainment and in-store cards—expanded by more than a fifth to close on 20m. Of this total, bank-based cards accounted for around 14m or almost 75 per cent. This sort of growth has been fairly faithfully mirrored elsewhere in the world, helped by increasing card specialisation and a constant stream of new products.

The main thrust of the product planners continues to be in premium or gold cards. The rash of gold cards threatens to

become an epidemic as one by one the banks scramble to service the top end of the market—and presumably plug into the higher available profit margins. In the UK the so-called "status" card tends to be reserved for customers earning £20,000 and more annually. American Express started the ball rolling and the trend quickly spread through the tentacles of the two major card groups with international links, Visa and Mastercard. Even Trustcard, which is part of the TSB, a group proud of its popular banking heritage, is rumoured to be on the verge of launching its own version of a gold card, probably by midsummer.

### Expansion

But new products are only part of the credit card boom. The main impetus to growth has been the successful expansion of conventional lines of business. There are now no fewer than four separate UK banks issuing their own Visa card, not counting variants of Barclaycard, and even more Access issuers. At the end of 1982 Barclaycard led the UK market with 6.5m cards in issue. Access

was right behind with 5.6m.

Equally gratifying though for the banks has been the continued downward movement in interest rates, coupled with a revival in retail spending. Even in W. Germany, where credit card usage tends to lag behind the rest of the world, card groups have begun to rub their hands in the wake of an 8 per cent upturn in 1983 first quarter sales by department stores.

Retail volume is critical to card profits since the banks take a percentage of each individual transaction. The percentage varies widely, depending mostly on the level of card business undertaken by a retailer. Credit card groups tend to charge less than the travel and entertainment card operators like American Express and Diners Club and are also inclined to cover the retailer's debt more quickly. An Access transaction in the UK, for example, can be covered by the retailer in a matter of days, whereas the time lag for travel and entertainment card payments to work their way through to a restaurant or a hotel can extend to several weeks.

At Trustcard the retail charge is reckoned to range between 24 per cent and 5 per cent per transaction with special arrangements for major card users, say British Rail or a big store group. Trustcard reviews its charges annually and has something like 150 full-time service personnel paying regular calls on shops and stores.

Other major sources of revenue for the card groups are debt overruns by the card holder and the charges the banks levy on cash withdrawals—irrespective of the condition of a customer's current account. At Trustcard some 15 per cent of card turnover is in the form of cash withdrawals and the group reckons that only 40 per cent of users repay the whole of their debt at the end of each month.

### Logjams

In the UK the credit card groups survived a recent skirmish with the retail trade when the Government ruled against the surcharges imposed on credit card users by garages. Originally the Monopolies Commission had ruled that retailers should be free to impose surcharges where customers sought

THE UK CARD MARKET	
	Number (m)
BANK-ISSUED	
Access	5.6
Barclaycard	6.5
Trustcard	1.8
Sub-total	13.9
TRAVEL AND ENTERTAINMENT	
American Express	0.7
Diners Club	0.3
Others	0.1
Sub-total	1.1
STORES	4.5
ALL CARDS	19.5
Source: Industry estimates	

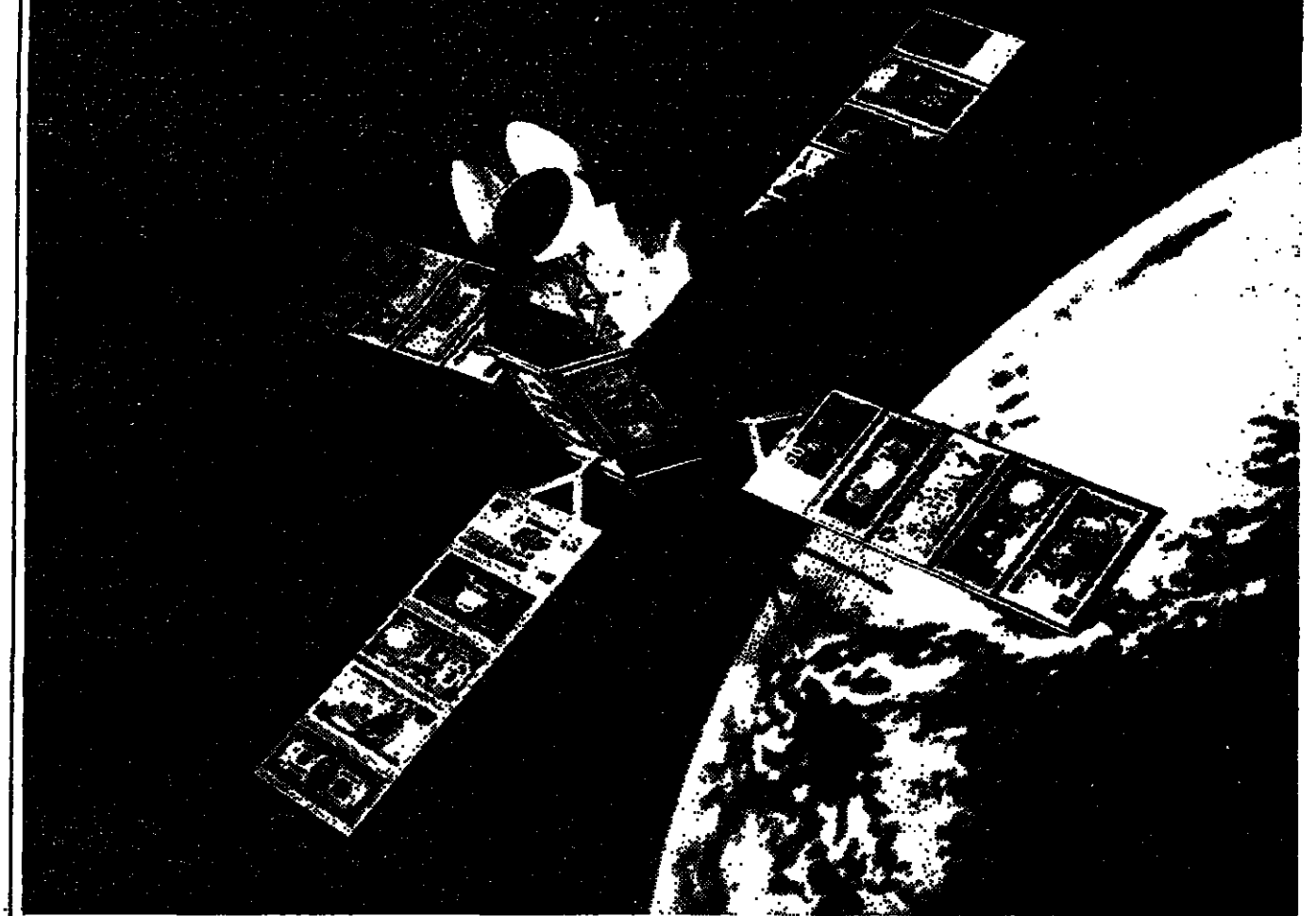
to acquire goods on credit. But this was eventually overturned by the Minister for Consumer Affairs, Sally Oppenheim. Dissent continues to rumble away. The supermarket trade manages to steer clear of credit cards by claiming logjams at checkout desks. Marks and Spencer says that its policy of returning cash on unwanted purchases could not operate on credit card transactions.

Conservative bankers often have mixed feelings about credit cards. At one level they represent direct and important contact with the public, helping to cement customer loyalty and putting the name of the bank before the retail trade. They are also highly profitable in most parts of the world. But from a strategic standpoint they also represent change—and rapid and costly change at that.

Credit cards sit at the very sharp end of retail banking technology and as such are a constant and sometimes uncomfortable reminder of the way cash transfer systems are rapidly evolving in an industry where the search for more cost-efficient trading is propelled along by intense competitive pressure.

In the U.S., where the average credit card holder has a wallet stuffed with eight separate cards, the development of automated teller machines (ATMs) has reached the stage where some banks feed 16 lanes of traffic into drive-in remote banking terminals. The use of plastic money outside America is far less widespread but time is pointing directly at a one-way trend.

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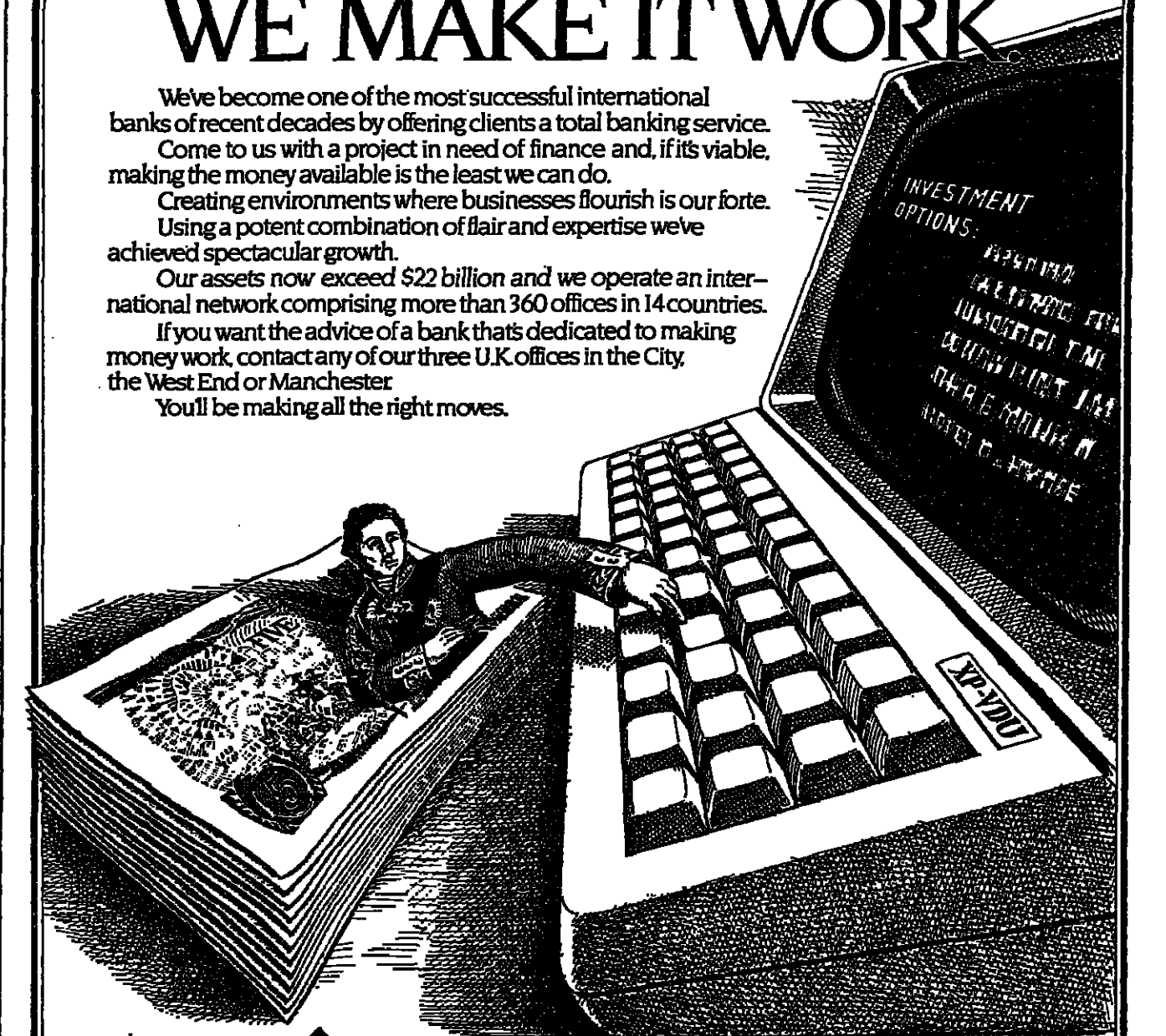
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## WORLD BANKING VIII

NORTH AMERICA: reports from William Hall and David Lascelles in New York and Nicholas Hirst in Toronto.

## Moves to curb U.S. bank lending overseas

U.S. BANKS are beginning to feel more confident that a way out of the international debt crisis is unfolding, but they are also uncomfortably aware that if the U.S. Congress has its way, then their problems are only just beginning.

There is a very strong feeling among the U.S. politicians interested in financial affairs that the U.S. banks should be taught a lesson for becoming so heavily involved in lending to Third World countries.

Many would like to see legislative curbs imposed on U.S. banks' foreign lending as a quid pro quo for agreeing to the \$8.5bn increase in the U.S. contribution to the IMF which many regard as nothing more than a "half-out" for errant U.S. banks which over-extended themselves in lending to Third World countries, many of which are no friends of America.

The situation is very fluid and has been complicated by the banks' apparent success in persuading politicians to block an administration effort to impose the withholding taxes on dividend and interest income.

The new tax would involve the banks in a lot of paperwork and extra costs. Politicians appear to feel that the U.S. banks have "won" on this score and have used up their credit with Congress. In return, they should be made to "pay-up" on the question of controls on their foreign lending.

At the beginning of April, the three bank regulatory agencies, the Federal Reserve, the Comptroller of the Currency's Office and the Federal Deposit Insurance Corporation, presented a five-point programme to Congress which would strengthen super-

visory practices relating to U.S. bank lending overseas and would also prevent excessive concentrations of credit in foreign countries.

The main elements of the programme were: a strengthening of the existing programme of country risk examination and evaluation; increased disclosure of banks' country exposures; a system of special reserves; supervisory rules for accounting for fees; and strengthening international co-operation with foreign bank regulators and through the International Monetary Fund.

The key to the regulators' proposals was that considerable discretionary power would be left to them. The banks are not at all happy about several provisions in the regulators' proposals, especially the talk about special reserve requirements.

In testimony to the House of Representatives' Banking Sub Committee, Peter Road of First National Bank of Boston, estimated that if the regulators' proposals had been in force when the Mexican restructuring was being agreed more than 100 of the 575 U.S. banks that agreed to reschedule Mexican debt would have dropped out.

His point has been echoed by many U.S. bankers who argue that any tightening of controls on their foreign lending will just accelerate the speed of their withdrawal from this market.

Assessing a modest world economic recovery, the major developing countries will need approximately \$70bn of new money between now and 1985. And, at the moment, no one is putting up any new money, except when they are having to do so involuntarily as part of an

IMF inspired rescheduling where the banks have little choice but to do what their central banks order.

Whilst the regulators' proposals were not to the banks' liking they at least gave some flexibility.

However, the senate banking committee asked for the proposals to be put into legislative form and after spurning up the capital adequacy part of the Bill, agreed to the legislative proposals.

The spotlight has now turned to the House of Representatives where up to three separate sub committees of the House Committee on Banking, Finance and Urban Affairs, are discussing the subject.

Just what sort of legislation will emerge from the House of Representatives is unclear at present, but there is a common feeling among both the Right

and Left wing politicians that if they are going to vote for the IMF quota increase, the banks are going to have to be made to pay in some way.

Right-wing Republicans are not at all happy about the IMF and the way it uses its money to prop up America's enemies. The populist politicians are concerned that the IMF money will be used to bail out the U.S. banks which have few friends in small town America.

Meanwhile, the U.S. Administration, whilst it opposes strict curbs on U.S. bank lending overseas, is not in a strong position to veto any proposals which have widespread support among Democrats and Republicans, if it wants to win congressional support for the IMF quota increase.

William Hall

It could be some time before Canadian banks return to the rapid expansion of the past decade

## Guarded optimism as outlook improves

## Canada's banks

NICHOLAS HIRST

CANADA'S BANKERS are in a more relaxed and confident mood than they were a few months ago. The defensive tone of the annual reports to shareholders for the fiscal year to October 31 has changed to a guarded optimism.

Last year, as Mr Rowland Frazee, chairman of the Royal Bank, one of the big five Canadian chartered banks, put it in his message to shareholders, was "a year to test our mettle."

Loan losses of the big five,

the Royal Bank, the Canadian Imperial Bank of Commerce, the Toronto Dominion, the Bank of Montreal and the Bank of Nova Scotia, rose 106 per cent to \$2.2bn and non-productive loans on which interest had not been paid for 90 days or more soared from \$1.8bn in 1981 to \$6.1bn.

Rising bankruptcies hit domestic business lending while internationally the Canadians, in common with other major banks throughout the world, had to deal with a looming liquidity crisis.

In the first quarter of the present fiscal year provisions for loan losses have continued to rise but falling interest rates have improved lending margins and profits have improved.

First-quarter net profits of the Canadian Imperial Bank of Commerce were up 23 per cent

on the corresponding quarter at \$374.2m, the Nova Scotia's profits were 61.5 per cent higher at \$310.2m and the Royal Bank saw a 39 per cent improvement to \$311.2m.

The worst would seem to be over. The Bank of Nova Scotia, which with 54 per cent of its assets in foreign currency has a higher exposure to international risks than the other banks, increased its loan loss provision by \$69m over the fourth quarter to \$345.8m but does not expect the figure for the year to exceed that of 1982.

Mr Frazee, on the announcement of the first-quarter results, said he was "optimistic that a general economic recovery is commencing and that its effects will be reflected in the bank's earnings performance."

It could be some time, however, before the Canadian banks

return to the rapid expansion of the past decade. Since September 1981 the banks have cut back sharply on new lending and asset growth which, for the previous 10 years, had grown at an annual rate of 21 per cent, has been negligible.

Businesses are concentrating on repairing their balance sheets and have been taking advantage of a rising stock market to issue new equity.

On the back of the economic recovery, bankers see some firming of loan demand later in the year, but they have become more cautious. Special teams have been created to look after problem loans.

There has been a tendency to withdraw from the decentralisation of the past few years to concentrate decision making in Toronto. In some cases loan authorisations have been cut

back, in others lending conditions have been toughened.

The Canadian banks' expansion had been across a broad base, but it left them exposed in areas which had once seemed sound.

The presence of many subsidiaries of American corporations in Canada and growing trade with the U.S., led to the building up of large U.S. dollar deposits with Canadian banks.

These naturally occurring offshore deposits led the Canadians into early participation in the eurodollar market. Foreign currency lending grew more rapidly than the rest of the banks' business.

In 1971 foreign currency assets of the chartered banks amounted to 23 per cent of the total. Ten years later they had grown to 40 per cent. Initially the banks lent to their tradi-

tional base in the Latin American and Caribbean countries.

The Royal Bank and the Bank of Nova Scotia have had operations in the area since the 19th century, running retail branches, and, at one time, financing the colonial trade in rum, sugar and timber.

The Nova Scotia, which retains its registered headquarters in Halifax had an office in Jamaica before it opened in Toronto.

More recently, expansion continued into Asia and the Pacific rim and into the United States. With the realisation that the Canadian Government was going to allow foreign banks to establish subsidiaries in Canada for the first time, the Canadians move smartly for business across the border.

If American banks were going to compete on the Canadian home ground for the business of U.S. subsidiaries, the Canadians decided they should compete for the business of their parents.

While lending to the Latin American and Caribbean countries has continued to rise, lending in the United States, has risen far more dramatically. The Toronto Dominion's lending across the border increased from \$21.4bn in 1980 to \$34.0bn last year and the Bank of Montreal's U.S. assets grew from \$37.6bn to \$51.3bn in the same period.

CANADIAN BANKS  
First quarter ended January 31 (Can\$bn)

	Net profits		Assets		Loan loss provisions	
	1983	1982	1983	1982	1983	1982
Royal Bank	112.4	90.7	86,596	87,764	112.0	63.0
Bank of Montreal ...	74.4	70.2	63,536	62,862	108.6	64.5
CI-Bank .....	74.3	69.2	65,282	66,321	96.0	60.5
Nova Scotia	102.8	63.6	53,725	51,563	48.6	27.5
Toronto Div	55.6	55.0	44,568	44,418	35.9	24.6

Source: Unaudited quarterly statements.

Source: Unaudited quarterly statements.

A tenth of the Canadian banks' foreign assets are held in the United States while nearly a fifth are held by Canadian residents. Exposure to the troubled economies of Mexico, Brazil and Argentina is nevertheless significant.

Toronto stockbrokers Wood Gundy, estimates that total gross exposure to the Latin American and Caribbean countries at \$322.5bn, slightly over 6 per cent of total assets.

But taking account of compensating cash balances and guarantees, and in the case of the Royal and Nova Scotia, retail deposits, the net exposure may be only half as much.

Domestically property lending has proved more of a problem than the well-publicised problems of the oil and gas sector. In the West, commercial property speculation took off with the oil boom, but through-out the country the recession has left buildings without tenants and rising interest rates have made a nonsense of cash flow calculations.

But it was lending on large single loans to the oil and gas

sector, which threatened to damage the Canadian banks' strong international reputation. The most worrying was the \$34bn of loans from four of the big five, the CI-Bank, the Bank of Montreal, the Royal and the Toronto Dominion to Calgary-based Dome Petroleum.

Neither the banks nor the Canadian regulatory authorities want such large exposure to single loans to occur again. A House of Commons committee has suggested single loans be limited to 25 per cent of capital reserves and in March, Mr William Kennett, the inspector-general of banks, sent out a discussion paper on capital adequacy.

Canadian bankers feel that they received unfair criticism the last time, in 1982, is now that their exposure to lending outside of North America has been exaggerated.

They have always made the point that their lending to Dome was fully secured. But there is no doubt that 1982 was a chastening experience. Falling interest rates have provided welcome relief.

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BRANCHES THROUGHOUT NIGERIA



## WORLD BANKING IX

Progress of International Banking Facilities—a major innovation of recent years—has been followed with interest. After 18 months a clear-cut verdict has yet to emerge.

## Little impact so far on international scene

## New York's international banking facilities

WILLIAM HALL

WHEN THE first International Banking Facility (IBF) of a U.S. bank opened for business on December 3 1982 there were very real fears in some quarters that the move heralded the beginning of the end for London as a major offshore financial centre.

The concept of having an offshore banking zone in New York and other U.S. cities had been discussed for several years. The basic objective was to increase the international competitiveness of U.S. banks and enable them to attract some of the international banking activity which was being conducted in overseas centres, particularly the Caribbean centres of Nassau and the Cayman Islands.

## Foreign role

The IBF was designed to be a vehicle which would be freed of several restrictions which hamper U.S. banks. It would accept time deposits from foreign customers free of reserve requirements and interest rate ceilings. It was also to lend to foreign residents and not U.S. residents. In many respects it was structured to function like the foreign branch of a U.S. bank, the only real difference being that it would be based in the U.S. and employ U.S. staff.

IBFs were also exempted from paying deposit insurance and were not liable to the various regulatory assessments imposed by the Federal Deposit Insurance Corporation. Finally, several states added to the structure of establishing an IBF by passing favourable tax laws.

The overall purpose of the U.S. authorities in allowing IBFs to be established was to enable U.S. banks to do offshore banking business from the U.S. in a regulatory environment similar to that of the Eurocurrency market but without having to use an offshore facility. The main elements of an IBF's business are as follows:

● An IBF's loans and deposits are restricted to foreign residents (including banks) other than U.S. banks and the establishment of the IBF. Lending to or accepting deposits from any other U.S. resident is prohibited.

● Limits are placed on the maturity of "IBF" time deposits which may be in the form of deposits, borrowings, placements or similar instruments.

● Transactions with non-bank customers are subject to a minimum of \$100,000.

● IBFs are prohibited from issuing negotiable instruments because they could be transferred by the original holder to U.S. residents who are not eligible customers of the IBFs.

● An IBF can lend to a foreign non-bank customer only if the proceeds are used to finance operations of the borrower or its affiliates outside the U.S.

● IBFs may engage in limited kinds of secondary market transactions. They can purchase and sell IBF-eligible assets such

as loans, loan participations, securities, certificates of deposit and bankers' acceptances from or to any domestic or foreign customer except domestic affiliates of the establishing bank.

While the IBFs have been given many of the freedoms associated with the overseas branch of a U.S. bank, it is generally agreed that the limitations on their permissible range of activities are more restrictive. The latter can, for example, accept deposits from and make loans to U.S. residents.

Since the IBF law was passed, virtually every major U.S. bank, many regional banks engaged in international lending and a host of foreign banks have set up IBFs. By last September nearly 400 banks had IBFs and the numbers are still growing. To put this in context, the numbers of IBFs in the U.S. now roughly approximate to the number of foreign banks represented in the City of London.

It is still too early to judge whether the IBF initiative will flourish. It is a subjective judgment, but after the first year and a half, the IBFs appear to have performed somewhat better than the pessimists thought possible. Yet their success still falls short of some of the heavy claims being made during the formative stages.

The U.S. IBFs today boast assets of around \$180bn and have become a part of the worldwide Eurocurrency market. But they remain rather passive in terms of business creation and they have not had much of an impact on the centre of gravity of decision

THE GROWTH OF IBFs		
	Assets (\$bn)	Numbers
1981 Dec.	64.3	116
1982 March	102.3	180
June	124.1	199
Sept.	155.7	222
Dec.	167.0	246
1983 March	181.0	269

making in the international financial market. They are very much book-keeping operations rather than independent banks in their own right. A few figures give an idea of how they have developed.

The real growth in the IBFs occurred in the first six months of their existence when a considerable amount of business was transferred on to their books. But while there are now well over 400 IBFs the number which can boast assets of more than \$50m (which means they are obliged to file weekly reports) is considerably smaller.

## Main centres

At mid-April last there were 269 IBFs which were big enough to report weekly data to the Fed and some 142 of these were located in New York. California is the next most important centre for IBFs, followed by Florida, Illinois and Texas. The rest are scattered over more than a dozen other U.S. states.

An idea of the slowdown in the growth in numbers of IBFs can be gauged from the fact that during 1982 the number of IBFs with assets of over \$50m more than doubled to 246 but

since then only 23 more banks have moved into that category. In terms of physical numbers the biggest single category of IBFs are those belonging to foreign banks. The latter operate 180 IBFs with assets of over \$50m compared with 41 operated by the big U.S. banks. However, the average size of the IBFs of U.S. banks (\$1.7bn) is more than three times the average size of the foreign-owned IBFs.

The growth in assets of the IBFs has slowed down considerably after the initial surge. In the first three months of 1983 the growth in IBF footings was 8.3 per cent compared with the quarter immediately preceding. Total dollar volumes are slightly misleading indicators of IBF importance. Many of them rely to a significant extent on their parents for funding and a better benchmark is the also the IBF's claims on unrelated parties. These totalled \$153bn at end-March last against \$143bn at end-1982 and \$92bn a year ago.

The biggest single element of the \$153bn of IBF assets with unrelated parties in interbank lending, which totalled \$63bn at end-March. The next biggest item is loans to foreign residents, which totalled \$37bn.

This last figure gives a clue to the sort of real lending the IBFs are doing as opposed to turning over funds in the interbank money markets. IBF commercial loans rose by 34 per cent in the year to end-March 1983. This indicates that progress has been relatively slow in building up this side of their business.

By contrast, IBF claims on other IBFs rose more than three-fold to \$23bn over the same period, which indicates that an embryonic inter-IBF money market is beginning to develop.

Among the foreign banks it is clear that banks from certain countries are making far more use of their New York IBFs than others. The Japanese banks, which have never had a major Caribbean presence, for example, are the biggest individual users among foreign banks. An article in the Federal Reserve Bulletin of October 1982 noted that they accounted for nearly 60 per cent of the claims on unrelated parties of all U.S. agencies and branches of foreign banks. Italian banks

are also proportionately bigger. In terms of the currency in which IBF business is transacted the U.S. dollar predominates and accounts for over 97 per cent of all transactions.

A look at the liability side of the IBFs' balance sheets, which are reported weekly to the Fed, shows that they have made progress in broadening their funding base and reducing their reliance on their parents.

In the early stages the IBFs were drawing close to two thirds of their funds from either the U.S. offices of their parents or the foreign branches of the same banks. At end of March last this had dropped to just over a third (\$56bn), indicating that the IBFs are beginning to act independently of their larger parents.

## Another sign

Another sign of the development of the IBF market in New York is the increasing volume of funds they are attracting from non-U.S. sources which are not banks. The volume has grown from less than \$2bn at end 1981 to nearly \$20bn currently. In terms of the IBF's total liabilities to unrelated parties foreign banks funds account for 42 per cent of the total, which indicates that the IBFs are heavily orientated to the money market activities which would be expected in the early stages of the development of any new financial market. Other IBF liabilities and other foreign sources of funding account for close to a fifth of the total. The one area where the IBFs have not been particularly successful is in attracting deposits from foreign governments and official institutions. These totalled less than \$10bn at the end of March last.

The general conclusion about the first year and a half of the U.S. IBFs is that they have not attracted a large amount of new business for their owners. Most of it has been transferred from other parts of the banks' operations. However, it is early days and most observers believe that despite their relatively slow start the assets of the U.S. IBFs should soon top \$200bn. Over time the IBFs are still expected to have a significant structural impact on the Eurocurrency markets, which are still heavily centred in Europe.

The rigid framework of regulation is being steadily loosened.

## Reforms open up fresh vistas

## U.S. banking and deregulation

DAVID LASCELLES

SUPERVISION of American banks is set to be tightened up in the wake of the international debt crisis, but, by contrast, regulation of the banking business (in the sense of do's and don'ts) is heading in quite the opposite direction. Deregulation of banking got under way in the Carter era and has been

speeded up under President Reagan.

In the last two years, two major reforms have been accomplished: interest rate ceilings (on both liabilities, like bank accounts, and assets, like consumer loans) have effectively been abolished and the division between banking and other financial services is being dismantled.

The removal of rate ceilings means that the U.S. interest rate structure has been liberalised for the first time since the early 1900s. Banks can now compete directly for the saver's dollar by offering market rates of interest: this will increase their costs but should expand their market share too, though thanks to the decline in U.S. interest

rates, the cost has been less than feared. On the other hand, loans may now become dearer, and the demise of that all-American institution, the fixed rate mortgage, can be foreseen. The removal of the stockades round banking is being achieved more by pressure of events—technological change, crises and even more impudence—than by sweeping legal reform. But the trend is clear: banks are expanding beyond banking, and others are moving into the banking business. This is confronting both bank supervisors and legislators with urgent questions, so much so that leading figures like Paul Volcker, the Fed chairman, are calling for a moratorium until things can be sorted out.

Over the last year or two, banks have moved into stock-broking—or at least the buy/sell order execution side of it—which is not barred to them by the Glass-Steagall Act. (This bulwark of bank legislation forbids banks to deal in or underwrite corporate securities for conflict of interest reasons.) Stockbrokers have also bought banks, getting round the law by eliminating their commercial loan business. (The legal definition of a bank is an institution that takes deposits and makes commercial loans) some states now let banks sell insurance.

Regulators have also suspended the 50-year ban on interstate banking may still be some way off. But these deals are clearing the way for a nationwide banking industry and possibly more significant—the gradual concentration of U.S. banking into a few giant corporations.

Congress will be holding hearings this year on proposals to allow banks to enter new lines of business, like mutual funds, real estate, insurance broking and so on. Bank supervisors are likely to resist rapid dilution of the definition of a bank. But whatever emerges is certain to be the thin end of a wedge which stands set to become very thick indeed.

## TWELVE MAJOR U.S. BANKS

Assets and income (\$m).

Rank by Assets 12-31-82	Net Income 1st Q 1983	Net Income 1st Q 1982	% change	Net Income 1982	Net Income 1981	% change
1 Citicorp	228.0	194.0	+18	713.0	531.0	+36
2 Chase Manhattan	106.1	114.8	(-8)	302.0	412.0	(-25.4)
3 Bank America	120.3	118.6*	+1.4	412.0	445.0	+1.4
4 Manufacturers Hanover	82.0	62.1	+32	215.0	252.0	+17
5 J. F. Morgan	117.8	86.0	+37	394.2	354.2	+11.3
6 Chemical New York	71.5	61.7	+16	240.6	215.0	+11.9
7 Continental Illinois	31.2	66.5	(-53)	77.9	254.6	(-69.4)
8 First Interstate	58.2	55.4	+5	221.2	236.1	(-6.5)
9 Bankers Trust	61.1	53.0	+15	239.0	188.0	+27
10 Security Pacific	61.2	52.6	+16	234.2	206.5	+13
11 First Chicago	43.5	33.2	+31	136.8	118.7	+15
12 Crocker National	16.1	18.1	(-10.5)	71.6	62.9	+13.8

\* This does not reflect change in account policy cumulative effect on prior years



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## BALANCE SHEET as at 31st December, 1982

LIABILITIES		ASSETS	
	1982 Dh (000's)	1981 Dh (000's)	
Share Capital Authorised — 6,000,000 shares of Dh. 100 each	600,000	600,000	Cash and balances due from banks ...
Issued and fully paid	243,900	243,000	Advances to customers less provisions
Reserves	163,350	109,019	Debtors and prepayments
Shareholders' fund	406,350	352,019	Investments in subsidiaries
Long term loans	280,477	310,201	Other investments
Current, deposit and other accounts	7,207,292	5,279,423	Fixed assets
Creditors and accruals	145,547	127,164	
Proposed dividend	36,450	24,300	
	8,096,516	6,093,107	
Confirmed credits, acceptances and guarantees on behalf of customers	1,528,423	1,490,249	Liability of customers for confirmed credits, acceptances and guarantees
	9,625,139	7,583,356	

Exchange Rate US\$1.00=U.A.E.Dh3.673

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## Financial Position (In Thousands)

## Financial Position (In Thousands)

December 31, 1982

December 31, 1982

Total assets .....

Total assets .....

Loans .....

Loans .....

Deposits .....

Deposits .....

Shareholder's equity .....

Shareholder's equity .....



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## WORLD BANKING X

THE MIDDLE EAST: anxious time for Bahrain's offshore banking market.

## Tough year ahead for offshore units

THIS PROMISES to be the toughest year so far for Bahrain's seven-year-old offshore banking market, as the anxieties of recession and the international debt crisis are compounded by the oil price effect on regional business, and specific problems relating to Saudi Arabia and Kuwait.

The threat of Saudi withholding tax is still a cloud on the horizon, but SAMA restrictions on syndicated lending in Saudi riyals are already taking effect. Meanwhile, smaller regional banks will be shivering in the drought of over-reaction to the Kuwaiti stock market crash, if treasury managers sitting in U.S. and European capitals put a generalised squeeze on bank lines to the Middle East.

Most of the locally-based offshore banking units (OBUs) showed good results in 1982, but were able to strengthen their reserves, but market volume began to fall off in September from a peak of \$81bn.

By the year-end, assets and liabilities of the 72 OBUs reporting to the Bahrain Monetary Agency (BMA) stood at \$39bn and the latest available figures (February: \$54.3bn) show a continuation of the downward trend.

Aggregate profit was in the region of \$450m, but almost half of it was earned by just four banks, leaving the remainder to be very thinly spread. The BMA does not disclose individual results for offshore branches of foreign banks, although it publishes statistics on the domestic market.

OBUs managers are prone to suggest that 50 per cent of their competitors are in the red, but there are no signs of imminent departures. Security Pacific is

scaling down its foreign exchange and money market operation, but this is part of its own rationalisation programme, rather than through disillusionment with Bahrain.

While the ability to put on assets will inevitably be restricted in 1983, this may, in fact, be a healthy brake on the rapid development of such banks as Arab Banking Corporation (ABC) and United Gulf Bank (UGB).

The latter started the year with an asset base of only \$410m, which accounts for the unusually high return on average assets ratio of 5 per cent. The bank itself publishes a figure of 3.5, based on total assets at year-end.

Among the newcomers, the 100 per cent Arab-owned Al-Uhaf International is already in the market and Bahrain Middle East Bank (which has an 11 per cent stake in Grindlays Holdings and representation in London through a small licensed deposit-taker) is bringing its staff and systems together with remarkable speed; in this it has been more successful than Bahrain International Bank, which parted company with its first general manager after only six months. Investcorp has withdrawn from the limelight while it

Bahrain  
MARY FRINGS

pursues its carefully planned development strategy, and the Bahraini-Kuwaiti Investment Group, which was awarded an investment banking licence at the end of 1981, has yet to establish an operational presence in Bahrain at all.

The supervisory responsibilities of the BMA now extend to 17 financial institutions, including Arab Bank International which recently restructured its operation and switched its headquarters from Lima to Bahrain; the five major offshore banks listed in the table, and the three locally-owned domestic banks, of which two have important offshore business (amounting to 40 per cent of the total, in the case of National Bank of Bahrain).

All banks licensed in Bahrain, including branches of Bank of America, Chase, Citibank, the four London Clearers and leading banks from Europe, Asia and Latin America, are required to submit monthly returns to the BMA, which since December has improved its reporting system to permit

better country and sectoral risk analysis.

At the same time, the agency imposed more stringent controls on banks under its direct jurisdiction, which account for some 30 per cent of market volume, and has instituted regular prudential meetings between management and BMA supervisory staff.

One view of the SAMA circular issued in January, which has caused so much apprehension in the Bahrain market, is that it, too, is essentially a prudential measure to protect the interests of Saudi domestic banks, and to curb the outflow of funds from the Kingdom.

The circular reminds Saudi banks of a previous requirement to seek SAMA permission before inviting foreign banks to participate in Saudi Riyal syndications, or before themselves participating in any syndication arranged offshore.

There has always been a list of approved banks, and SAMA has always sought to prevent the internationalisation of the Saudi riyal; in that respect the move towards tighter control is not specifically directed at Bahrain, although some bankers fear the departure from SAMA of the highly-respected Abdul Aziz Al Quraishi may fore-

shadow a new harder line. So far, there is no restriction on the availability of offshore riyals and direct lending is not affected, nor are syndicated facilities denominated in dollars.

But marketing officers are finding Saudi entry visas increasingly hard to obtain, which is bad news for those banks whose presence in Bahrain is heavily dependent on access to this most important of regional markets.

The managers of some foreign OBUs are also concerned about tougher attitudes towards expatriate work permits. Where overheads are high and profit margins are slim, they say they cannot afford to take on an additional Bahraini trainee every time they need to renew an expatriate visa, although "this is fine for the big local banks."

Many envious eyes have been cast on the "quite indecent" windfall profits accruing to the three locally-owned domestic banks last year, from the handling of Gulf company share issues.

In addition to healthy operational earnings, the Bank of Bahrain and Kuwait declared extraordinary income of \$44m and National Bank of Bahrain \$24m: a bonanza which will not be repeated this year.

Despite their excellent performance, the shares of these banks lost over 50 per cent of their market value after the declaration of dividends, as investors sought to liquidify their assets in a massive loss of confidence over the oil pricing situation and the future of Bahrain's 250,000 b/d refinery, which in February was running at only 20 per cent of capacity.

Foreign banks in the United Arab Emirates are under gentle but firm pressure to reduce their presence

## 'Localisation' drive

FOR THE heavily banked environment of the United Arab Emirates (UAE) the past year has not been easy. A downturn in trading has affected the Dubai banks, while banks throughout the federation of the seven emirates continue to adjust to measures issued from the Central Bank.

The Central Bank of the UAE, formed two years ago from the old Currency Board with greatly enlarged powers and funds, has been continuing to bring about a more ordered banking environment. With the UAE's past history of turbulence in its banking sector, including a major crisis in 1977, the Central Bank's path is not smooth. Additionally, the independent-mindedness of the emirates and their different histories make it slow for Federal institutions to achieve a consensus. But, says the Central Bank Governor, Abdul Malik al-Hammar, "All the Emirates comply willingly now and our normal way in any case is to do things slowly."

Over the last year there has been evident though low key pressure on the foreign banks. This pressure began when the Central Bank told foreign banks to cut their branches to eight by the end of 1983. Banks most affected were British Bank of the Middle East (BBME), the present UAE six, and the Bank of Commerce and Credit International (BCCI), for which Abu Dhabi was almost its original home base. This Central Bank (CB) move made sense in a country where with a population of just over 1m there were 49 commercial banks and some 370 branches. It was further intended to relocate business to the locally incorporated banks.

Since the CB's original request a number of banks have reduced their branches, starting with the small and unprofitable units. Another route to compliance — and one favoured within Federal and Abu Dhabi circles — has been the suggestion of "localisation." This involves the bank with majority UAE ownership.

BBME is thought to have been approached on these lines and certainly Abu Dhabi's investment institution, the Abu Dhabi Investment Authority (ADIA), has approached certain foreign banks offering to take majority shareholding in a newly constituted localised bank. Says Ghanim al-Mazrui, ADIA's director general, "ADIA decided it did not have sufficient investment in local banks. So we said to foreign banks how about ADIA acquiring 60 per

cent of the equity. It's an option for them — to go hand in hand with us."

To most of the foreign banks this "localisation" pressure has not been welcome. They have commented it would adversely affect their profitability and they might be unwilling to invest as much technology and personnel under such conditions as at present. But the trend towards joint management of equity is there and confirmed also within the CB.

BCCI, with its special relationship in Abu Dhabi, has taken this course. Before 1983 it had two licences — one for Luxembourg-based BCCI SA and

banks in Dubai that are essentially family banks. Intended both to encourage prudence and to stimulate the local banks' business, the ruling is likely to lead to more business going to foreign banks.

For the commercial banks generally 1982 was a year of slower growth but increased profits. One bank which underwent major management changes in 1982 was Khalij Commercial Bank, one of the five banks incorporated in Abu Dhabi. Khalij now has a management contract with BCCI and according to Abu Dhabi Government sources is set to do "very well indeed." Banks showing good 1982 profits are National Bank of Dubai, Bank of Oman and Union Bank of the Middle East.

The doyen of UAE banks remains the National Bank of Abu Dhabi, majority owned by the Abu Dhabi Government and one of its principal bankers. NBAD, though 1982 figures are not yet released, apparently did very well.

In other banking activities the Abu Dhabi Investment Company (ADIC), after a long pause during management changes, is actively back in the local market. Seen as the merchant banking arm of the Abu Dhabi Government, ADIC has been active in arranging local credits including being one of the lead managers in the \$190m credit for the Emirates General Petroleum Company (EGPC) for the gas distribution network for the northern Emirates. The thrust of its work will be local and regional rather than international.

The UAE's Industrial Bank began operation in March 1983 with paid in capital of Dh 200m, 51 per cent state-owned and offering low cost loans to enterprises which have at least 70 per cent local capital. A property bank is planned and the much discussed stock exchange should open late this year.

The Central Bank itself has been continuing to take on more local personnel and to achieve local professional management standards plans to open a banking training institute. Its Risk Bureau, set up in 1982, is providing an information service for banks and according to al-Hammar is helping banks to more prudent and cautious policies. The CB's own figures showed at the end of the third quarter of 1982 a slight decline in overall assets from 1981's Dh 14.1bn to Dh 13.8bn, because of lower foreign assets (down from Dh 11.9bn to Dh 11.6bn).

## United Arab Emirates

CAROLINE MONTAGU

## IT'S A HAZARDOUS JOURNEY THROUGH THE FINANCIAL MARKETS. DOES YOUR BANK HAVE A RELIABLE SENSE OF DIRECTION?



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As the economy develops, Saudi banks are expanding their range of services

## Impressive strides forward

## Saudi Arabia

BY A CORRESPONDENT

FOR SAUDI banks a new era is opening up, and it is generally recognised that it will not be as much fun as the one that has just passed.

While the changes under way in the domestic banking system are neither dramatic nor entirely unexpected, it is clear to everyone that the heady days of relatively easy profits and phenomenally high growth are over. The slowdown in government spending is translating into a greater reliance on the banks in financing working capital requirements.

Credit decisions are getting tougher as the market spreads to small and medium sized companies lacking sophistication or track records. Both risk and cost are rising while margins are falling; earnings look to tumble to more earthy levels this year and capital growth will almost certainly slow.

The banks, however, will be tackling this new phase of a more moderate growth with a solid base to work from, for the banking system as a whole made impressive strides last year, perhaps only just short of spectacular.

The consolidated assets of the ten commercial and investment banks climbed over the SR 20bn mark by the year end and the total balance sheet footings rose to more than SR 216bn. Five years ago it was less than a third that, about SR 70bn.

Net earnings for the year were an average 20 per cent or better over 1981, and the high rate of retained earnings helped to push the consolidated capital and reserves of the banks to more than SR 10bn. The number of branches rose to more than 350, with most of the expansion in 1982 occurring in the villages and cities outside the three main urban areas.

The banks also introduced an array of new products and services, with the automation of operations paying the way.

Saudi American, for instance, kept ahead of the pack with direct terminal linkups between the customer's office and the bank's own computer system. Several other banks such as Saudi British, Al Bank Al Saudi, Al Hilmah, and National Commercial are rapidly catching up with the automation of their own operations.

Treasury services are also improving as automation and the advent of Reuter monitors in the dealing rooms are backing up enlarged treasury staffs. Plans are underway at two banks for automatic teller machines and electronic banking bookups with selected merchants.

Cash management and project financing advisory services are fast becoming the rule rather than the exception at the more progressive banks. Saudi American and National Commercial may soon market credit cards, following the lead of Saudi Cairo and Arabian Express, a

privately owned consumer credit card company.

Most of the banks, led by NCB and Samba, former merchant banking or international departments which put together syndicated deals worth more than \$770m in the first three quarters of 1982. Saudi Investment Banking Corporation introduced a new line of products such as vendor leasing arrangements which offer borrowers an alternative means of financing capital requirements.

Such innovations will be essential if the banks are to remain profitable and if the banking system is to continue meeting the needs of a developing economy. But as the economy shifts toward the productive sectors, the traditional profit centres of the banks such as trade finance and bonding facilities are losing some of their lustre.

For instance, banks that have relied on the fee income generated from syndications or bonding facilities may find themselves vulnerable to the downturn in the contracting sector since Iraq has. Other banks heavily geared towards trade financing may find themselves equally vulnerable as the growth in imports is expected to decline this year.

These changes are occurring

at a time when those made-in-bankers' heaven spreads have already been sharply narrowed.

Interbank rates for marginal funds, to which most lending is pegged, have slid into the 8 to 10 per cent range after hovering in the mid to high teens for a year or more. The highly favourable funding mix of the deposits is slowing giving way as at least half the deposits are now in time rather than demand accounts.

The growth market is probably the "middle" or "second tier" market of the small to medium sized companies in the manufacturing, downstream or consumer services industries. But the lack of a solid track record or management sophistication, coupled with the higher odds of bankruptcies in a slower economic environment, is making the banks cautious. At least one Saudiized bank, with deep inroads into the middle market of small shop merchants or companies, is now experiencing serious difficulties with its loan portfolio.

There is, at least on paper, plenty of funds to lend. The domestic banks have always been flush with funds and, in search of good credit risk, have often placed half their assets offshore for lack of elsewhere to go.

The problem has been exacerbated by the Ministry of Justice edict forbidding the use of property mortgaged as collateral on loans. The banks have devised schemes of manoeuvring around the ruling, but they are clearly in a legal no-man's-land and it is having an impact on their credit evaluation process. Indeed, credit assessment is quickly becoming the single biggest issue facing the banks in 1983.

Despite these difficulties, the development of the domestic banking system carries enormous implications for the offshore banks in Bahrain that rely to a large degree on rial business.

"One can have doubts about fostering the development of institutions designed to promote capital outflows," commented the late Ambassador Abu Al Khail, Saudi Finance Minister, at a conference in Dubai on banking in February 1982. Few Gulf bankers have forgotten his admonition of official Saudi thinking.

The growing confidence and competence of the onshore banks, coupled with the growing regulatory prowess of SAMA to keep rials onshore, bodes well for the future of the suitcase bankers.

## COMMERCIAL BANKS IN SAUDI ARABIA

Bank	Net profit		Total assets/ liabilities		Total deposits		Loans or advances	
	1980	1981	1980	1981	1980	1981	1980	1981
National Commercial Bank	478	591	31,030	41,457	26,967	32,695	12,246	16,144
Riyadh Bank	433	512	14,069	24,178	11,011	17,874	5,418	8,389
Saudi French Bank	66	184	5,686	6,282	4,789	5,103	2,807	2,872
Saudi American Bank	169	280	7,066	7,581	6,277	6,421	4,394	4,042
Saudi Cairo Bank	117	121	5,592	6,311	4,224	5,679	2,849	3,058
Saudi British Bank	96	115	3,566	5,478	2,964	4,557	1,929	2,194
Arab National Bank	145	217	4,347	5,182	3,538	4,239	1,762	2,177
Saudi Dutch Bank	76	121	3,281	4,261	2,871	3,393	1,455	1,570
Al Jazira Bank	53	87	2,297	3,148	2,003	2,844	1,107	1,283
Saudi Investment Banking Corporation	35	37	4,182	4,905	3,154	4,604	1,646	1,518

†15 months. Source: FT

The state banks' profits have made them a target for renewed outcry in the Press

## Four public sector banks face fierce criticism

## Egypt

CHARLES RICHARDS

THE PERIODIC attacks in the Egyptian Press on the role of foreign banks have intensified and the Press has extended its field of fire to include the big four nationalised banks after they announced profits of \$270m for last year.

The four banks—the National Bank of Egypt, Banque Misr, Bank of Alexandria and the Banque du Caire—are under attack because Egypt is an avowedly Socialist country. Calls were heard for tighter control of the banks by the Central Bank of Egypt (CBE).

Charges that the banks are milking the country are not new. A former Minister of Finance before the 1952 overthrow of the monarchy described the scene as "a cow grazing the pastures of Egypt, with its udders being sucked dry from outside."

The accusations are disingenuous. The profits of the nationalised banks accrue to the Government. The Central Bank itself already regulates all banking operations. Banks must put 15 per cent of their foreign currency holdings with the Central Bank. It is because the CBE so rigidly regulates banking operations that banks are able to make the kind of profits impossible in a more competitive market.

Because the four public sector banks have to fulfil social functions they are not run along strict cost-effective lines. To allow them to maintain a comprehensive but unprofitable branch system the CBE fixes margins on letters of credit and Egyptian pound loans as well as rates for authorisation commissions and discounts much higher than where floating rates apply. Any reduction of these rates would hit the public sector banks hardest.

## Credit ceiling

The CBE has also imposed a credit ceiling of 65 per cent or as a ratio of total deposits. This has had a greater effect on the over-extended wholly locally owned private banks than on the more cautious joint ventures with foreign partners. Because of greater risk taking Egypt has now witnessed the appearance in court of the chairman and deputy chairman of one of the largest private banks, the Suez Canal Bank, to answer questions in a fraud case.

Other measures to control inflation include a restriction on the growth of lending to 3 per cent per every four months. This is most damaging to new banks trying to build up a deposit base.

One bank that has come late to Egypt is the Hongkong Egyptian Bank, capitalised at \$20m. Shareholders are 51 per cent Egyptian, including 7.5 per cent Egyptian Reinsurance, a public sector institutional investor, 40 per cent the Hongkong and Shanghai Bank and 9 per cent Saudi interests. With extensive experience in the oil industry through its affiliates in the Far East and the British Bank of the Middle East (BBME) it is keen to attract business from oil service companies.

Other newly arrived banks include the Egyptian Gulf Bank, whose chairman, the Kuwaiti businessman Ahmed al Duaiq, is also leading a group of Gulf businessmen setting up a \$600m investment company in Egypt. Other signs of the thaw in Egyptian-Arab relations is the increase in capital of the Arab African International Bank (AAIB) from \$125m to \$200m. Main shareholders are the CBE rate.

and the Kuwaiti Ministry of Finance, each with 42.5 per cent. The other shareholders include the Raedain Bank of Iran, the Central Bank of Algeria, the Jordanian Ministry of Finance, the Qatar Ministry of Finance and the Al-Jazira Bank of Saudi Arabia.

Bankers Trust Company of New York opened a new representative office in Egypt on April 6, bringing the number of banks to over 70. Foreign banks wishing to enter Egypt are likely to have to subscribe a fixed dollar capital in Egyptian currency equivalent. Half the foreign currency deposits will have to be put in the CBE for a minimum of two years at half a per cent below Libor.

Most major banks have already set up in Egypt, with the exception of major Japanese and West German banks. On February 17 Cairo Barclays changed from a 50-50 venture dealing only in hard currency to a 51-49 partnership between Barclays and Banque du Caire able to deal in local and free currencies.

Cairo Barclays, like the much larger Misr Iran Development Bank, has been mainly involved in project financing.

Warnings once again have been issued that licences may be withdrawn from banks if they do not contribute to the country's well-being.

The joint venture banks are increasingly engaged in project financing after a period in the seventies when they were mainly dealing in trade after they came in under President Sadat's open door policy.

Branch offices are able to deal in hard currency only and are finding that trade is going through a difficult period. All importers have to re-register as importers. When their cards are re-issued they will be valid for five years but no new letters of credit may be opened after May 4 on the old cards.

The idea is to reduce unnecessary imports. Egypt's import bill has been cut—but mainly because of lower commodity prices. Public sector companies wishing to obtain hard currency for imports are almost invariably obliged to go to free market to obtain their needs because of the shortage in the commercial pool. Public sector banks charge a premium equal to the difference between the official and free market rate of exchange.

Foreign branches able to draw on external resources often undertake to reconfirm letters of credit, but some have cut back to reduce risk, even though Egypt's country risk rating has scarcely shifted from medium to low.

To encourage exports the Minister of Economy has also announced that exporters of certain commodities will in future be able to keep all their hard currency earnings rather than having to deposit a proportion in the banks at the official

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Year Ending December 31, 1982

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\* Shareholders funds stood at Dh. 163.6 Mn. (US\$ 44.6 Mn) as of end December 1982 making an impressive ratio of capital funds to deposits of 29%.

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\* Consistent dividend record.

\* Commercial business continues to be ENB's forte.

\* Expansion of money market activity.

\* Computerisation of accounting systems to improve managerial decision making and provide better customer service.

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\* Development of foreign exchange activities.

\* Act as a catalyst in the diversification of UAE's economy and help spread the industrial culture.

ASSETS	31st Dec 1982	31st Dec 1981
	(Dh.000s)	(Dh.000s)
Cash and Balances with Banks	15,318	15,033
Deposits with Banks	176,461	25,320
Loans and Advances	394,450	300,518
Investments	183,144	183,144
Fixed Assets	385	488
Other Assets	16,953	13,560
Total Assets	726,711	538,053
Liabilities of customers for Confirmed Credits, Acceptances and Guarantees	131,759	116,010
	858,470	654,063

CAPITAL & LIABILITIES	31st Dec 1982	31st Dec 1981
	(Dh.000s)	(Dh.000s)
Share Capital	132,000	33,762
Reserves	31,568	24,836
Shareholders' Funds	163,568	58,598
Current, Deposit and other Accounts	559,767	377,841
Share subscription in advance	—	98,238
Proposed dividend	3,376	3,376
Shareholders' Funds and Total Liabilities	726,711	538,053
Confirmed Credits, Acceptances and Guarantees on behalf of customers	131,759	116,010
	858,470	654,063

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CONSOLIDATED BALANCE SHEET  
AS AT 31st DECEMBER, 1982

ASSETS	in million	
	Egyptian pounds	
Cash and Banks	307.6	
Loans and Advances	155.7	
Investments	29.8	
Other Debit Balances	13.9	
Fixed Assets (after depreciation)	6.5	
Total Assets (before contingent liabilities)	513.5	
Contra accounts	246.8	
Total	760.3	
LIABILITIES		
Customers' current & deposit accounts	199.0	
Due to Banks	220.1	
Frofit	12.2	
Other credit balances and provisions	14.6	
Total shareholders' equity	67.6	
Total liabilities (before contingent liabilities)	513.5	
Contra accounts	246.8	
Total	760.3	

## NBD'S INVESTMENT BY SECTOR

Food security sector	(six companies)
Housing and construction sector	(two companies)
Industrial sector	(five companies)
Agricultural sector	(two companies)
Service sector	(four companies)
Banking sector	(sixteen banks)

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## WORLD BANKING XII

MIDDLE EAST: calm has been restored after the  
Manakh market collapse in Kuwait

## Government action dispels crisis

## Kuwait

CAROLINE MONTAGU

KUWAIT'S BANKING community must be highly relieved that 1982 is over. Last summer the Suq al-Manakh, Kuwait's unofficial stock market, collapsed spectacularly, leaving a gross open position of KD 270m and with a bit of luck, a net figure of just over KD 70m—still a staggering sum. These figures are huge, the gross position being equal to about half Kuwait's accumulated foreign reserves and the net position equivalent to a year's investment income.

In a tangled web of forward trading and postdated cheques, the Manakh market built up an alternative credit structure outside the banking system. Stock in unregistered Gulf companies was sold forward with annual premiums often in excess of 100 per cent and on credit. Speculative dealing occurred too on the official market and in real estate. Kuwait's normally carry trading community had little time for other activities and a suspension of reason in favour of a get-rich-quick frenzy sucked in people from office workers to the official establishment.

The commercial banks were de facto drawn into this vortex. From being on the whole speculators they became voluntarily or involuntarily active participants. The main six commercial banks in their customary

business of extending credit to institutions, corporates and individuals, knowing well that much, if not most, of this credit was going into the Manakh. Between the third and fourth quarters of 1981 commercial banks' personal lending increased by 21 per cent and their lending to financial services by 15 per cent. Personal lending was up in the first quarter of 1982 by another 17 per cent. At the end of 1982 Kuwaiti domestic lending totalled KD 4.3bn.

In contrast to other states in the Organisation of Petroleum Exporting Countries (Opec) Kuwait has developed and kept a locally-owned commercial banking system. This policy fits well with the impoverished and less mature of Kuwait society. Kuwait is very small, with some 600,000 nationals who benefit from the institutions, wealth and social handouts. Foreign labour and experts make up another 900,000.

## Family groups

The Kuwaiti commercial banks form part of this small society composed of the family groupings which are the country's political and economic nucleus. The same families that are on the banks' boards run the trading establishments, provide senior government and administrative the oil sector.

Members of many of these same families were also the big punters in the Manakh. The commercial banks became a part of the Manakh debate through their personal lending—credit lines, loans,

overdrafts. Much of this lending was secured with real estate or stocks providing collateral. But the quality of much of this collateral is open to question. Collateral from domestic securities could have been holdings in the official stock market which, too, was subject to speculation.

The value of real estate was hard to evaluate over the year, again due to higher than average speculation, by Kuwaiti standards.

However, the realities of Kuwait are different and the commercial banks' position there secure. In no circumstances would the Government allow the banks to falter and in any case up to now Kuwaiti banks have been extremely profitable and expensive.

By the same token the Government will try to contain the number of individual bankruptcies from the Manakh and therefore the knock-on effect on the economy and the banks.

The banks were assured of very adequate liquidity in the second half of 1982 when the Government placed deposits of KD 800 to KD 400m with them. Interest rates which had gone high in the summer dropped by a good 5 percentage points. From the Central Bank of Kuwait (CBK) figures showed the commercial banks' consolidated accounts reserves were KD 2.6bn, of which balances with the CBK were KD 1.34m and CBK bills KD 470m. The total reserve figure was double that of year end 1981.

The six commercial banks vary from the largest, National Bank of Kuwait (NBK) to the small and majority-owned Burgan Bank. At end 1982 total assets were KD 9.2bn, up 20 per cent on 1981's KD 7.6bn. This growth rate, however, is considerably lower than the phenomenal growth rates of over 30 per cent in the previous two years.

NBK's balance sheet showed a 19 per cent increase in assets (less contra) to KD 2.3bn. A good performer last year, Burgan Bank (BBK) and the Middle East Bank (MEB) increased its balance sheet from KD 745m to KD 1bn. Due to the belief that BBK, like NBK, was less exposed in the Manakh than some others its deposits rose by 35 per cent to KD 950m.

The fall out from the Manakh has by no means settled. Towards the end of last year banks and other institutions had considerable difficulty in preparing audited accounts.

The Government was then—as it still is—in the throes of finding a system for writing down or offsetting Manakh cheques. This led to uncertainty on how to present on balance sheet sums related to the forward share trading.

Kuwaiti commercial banks, even conservative, have big hidden reserves, estimated locally at some KD 500m. For 1982 they had an additional thorny problem of estimating bad debt provisions and increasing reserves. Gulf Bank, for example, has included exceptional provisions under "Demand, due deposits and other accounts including contingencies" and raised this figure from 1981's KD 1.4bn to KD 1.7bn on a total balance sheet of KD 2.1bn.

The degree of lower reserves, however, makes profit figures for Kuwait banks somewhat approximate. Banks have freedom to transfer profits in and out of these reserves. Published profits for commercial banks for 1982 were KD 65m from 1981's KD 51m.

## Well-grounded

The commercial banks like other major Kuwait financial institutions such as the "SKs" (Kuwait Investment Company, Kuwait Foreign Trading Company and Kuwait International Investment Company) come out of the Manakh fiasco well-grounded and supported by the government.

Local studies suggest that one of the biggest banks was in fact responsible for the slowdown in credit growth to the Manakh in the first part of 1982. Having prepared a report on the out-of-hand Manakh speculations, with its board's approval it cut credit lines to customers who were also major players in the market.

At current slow rate of progress it will take more than 1983 for the Government and individuals to sort out and net their Manakh positions. During this time the banks, though likely liquid, will find a shortage of domestic economic activity.

The Manakh crisis came when Kuwait was suffering a downturn in trading with Iraq and some recession at home and in the Gulf. NBK's recent Economic Quarterly states, "The main challenge facing the banks and other financial institutions will be to explore and find selective lending and investment outlets for their readily available funds."



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## FAR EAST: consumer finance is the latest force for change in Japan

## Old disciplines face challenge

## Japan

JUREK MARTIN

THE FAVOURITE advertising theme of Japanese banks is the family. The walls of each and every branch office are festooned with huge photographs showing the typical healthy young Japanese family happily engaged in assorted pastimes and sports. Images of sweetness, light and health thus suffuse each institution.

The trouble with the image is that it does not exactly correspond to what is actually happening inside the Japanese financial community. As, one by one, the restrictions that have hemmed in Japanese banking and financial services are removed, so members of the financial family are starting to play with each other's toys. Inevitably, in an atmosphere of greater competition, some of the conflicts are threatening to become quite sharp.

The seeds of sibling rivalry have long been present. The major city banks and the big securities houses, for example, have for years coveted each other's business. Selfishness. Similar inherent conflicts have divided the city and regional banks, specialising in short-term financing, and the long-term credit and trust institutions. The recent explosion in consumer finance, for years underdeveloped in conservative Japan, has attracted both established institutions, non-financial corporations such as department stores and previously less reputable loan sharking operations. The growth of electronic banking is also sharpening competitive forces.

This does not of course mean there has been an overnight change in the financial environment. In banking and finance, as elsewhere, the Japanese Government tends to proceed with all deliberate speed. The major revisions in the Banking Act which took place last year and which blurred some of the distinctions between the city banks and the securities houses evolved slowly.

It was, after all, only in April that the banks were finally permitted to trade government bonds over the counter. Caution over the yen also resulted in delays before both the banks and the securities houses were authorised to sell domestically foreign commercial paper and certificates of deposit.

A similar wariness still pervades decision-making over the creation of an offshore banking facility in Tokyo, the introduction of which would change the face of Japanese banking and finance. The widespread assumption is that an offshore facility will be in place within two to three years. This is based on the knowledge that the Ministry of Finance supports the concept and that the BOJ counts more than the Bank of Japan (BOJ), whose reservations, largely centred on what it feels are potentially adverse consequences for controlling monetary policy, are well known.



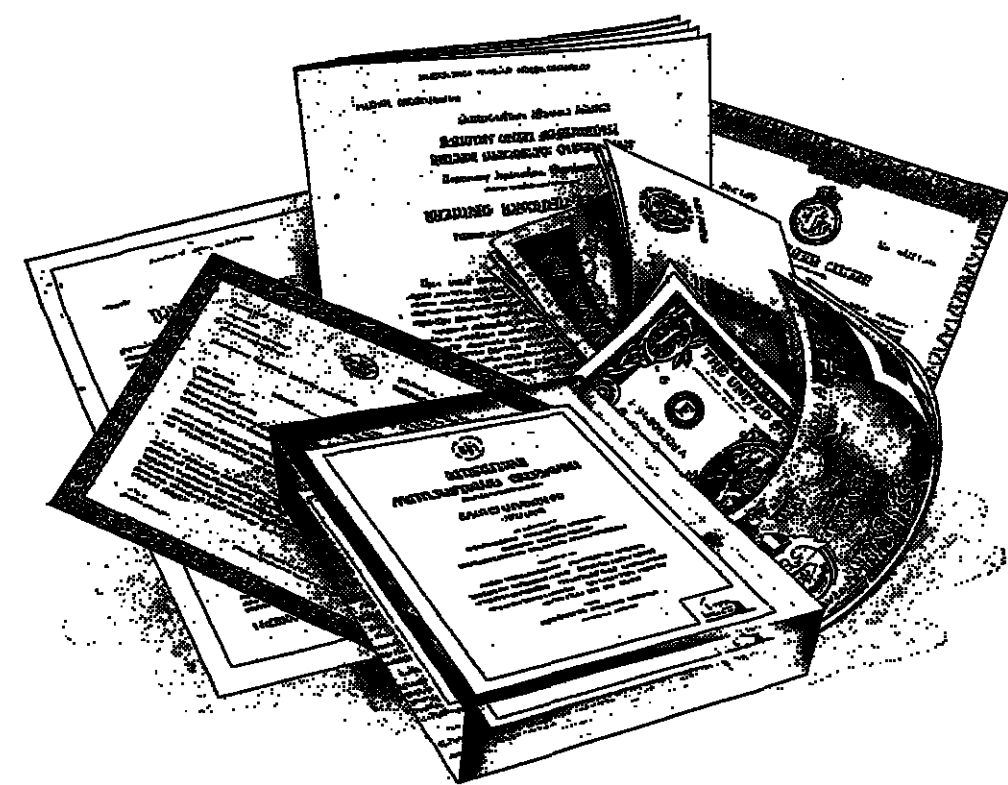
Japan: experiencing a surge in consumer finance

But precipitate action is unlikely. The Government appears to accept that it is logical that the country should espouse an international financial position commensurate with its economic weight—but not before careful study of the pitfalls.

With hindsight, this caution is understandable in the light of the somewhat severe shock to the Japanese psyche brought about by what might be described as an earlier "leap in the dark"—heavy Japanese bank lending to key developing countries. The problem here was not that the Japanese banks had been more imprudent than their Western counterparts or even that the debt crisis as such was unmanageable—though the BOJ has been forced to relax guidelines on that. Japanese banks could participate in international rescheduling operations, while the MOF has permitted the banks to set aside up to 5 per cent of their overseas loan portfolios as (non-deductible) reserves against bad debts. It was more that the crisis had somehow not been foreseen.

A similar concern is already beginning to manifest itself over the startling growth in the activities of the "sarakin," the money lenders in the vanguard of the explosion in Japanese consumer finance. Given that personal finance facilities in Japan have traditionally been sparse, it is not surprising that the sarakin have found a niche in the market. It is undoubtedly regrettable that some of them resort to strong arm methods to collect on their debts but what is really disturbing is the extent to which the major city banks (as well as life insurance loaned them money—to the tune, according to the MOF, of ¥194bn by September last year, a five-fold increase in 18 months).

Implicit in rapid changes in consumer finance is absence of the sense of discipline that has characterised the Japanese financial system for so long. Alarmed politicians have sought remedies with a variety of Bills introduced into the Diet.



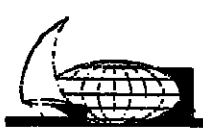
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Capital and Reserves	20
Assets	
Loans and Advances	139
Cash and Due from Banks and Correspondents	225

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FAR EAST: gloomy year for Hong Kong bankers

# Property loans hit profits

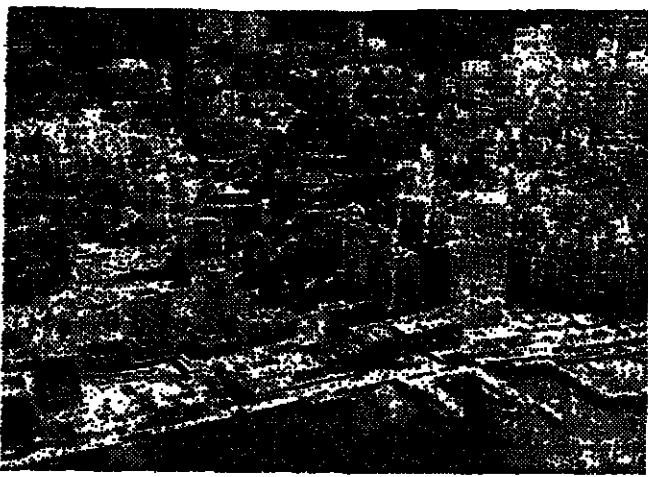
Hong Kong  
ROBERT COTTELL

IT HAS been little short of a disastrous year for Hong Kong bankers. The downturn of the 1978-81 property boom has created massive loan delinquencies—some publicised, many not. The domestic banking system itself moved towards the conclusion of a phased restructuring into three tiers, with the strains of a shifting funding base exposing dangerous weaknesses in the deposit-taking sector, where seven companies' registrations have been revoked in the past six months.

Most banks managed to report profits growth, though generally of very modest proportions compared with previous years. The privilege of limited disclosure enjoyed by Hong Kong banks makes it impossible, however, to discern how far that growth was masaged into existence by use of inner reserves. Some banks were obviously hard hit by their earlier forays into property lending. It is reckoned that Wardley, the merchant banking arm of the Hongkong and Shanghai Banking Corporation (HSBC), might have had to report a loss for 1982 if its mighty parent had not taken some doubtful debts on board.

HSBC itself showed overall group profits ahead by just over 11 per cent. A partial boost came from its British merchant banking subsidiary Antony Gibbs, which turned around from a 1981 loss to a 1982 profit. The major casualties of the property boom so far have been Eda Investments, controlled by the Chung family, which is now in liquidation; and Carrian, the property, shipping and insurance group which has been struggling for six months to save off liquidation by renegotiating US\$1bn of bank debts.

Wardley apart, it is the foreign banks in Hong Kong which have suffered worst from the property slump. The ambitious loans made in Hong Kong by Bumiputra Malaysia Finance (BMF) had by March this year caused sizeable political headaches in Kuala Lumpur, headquarters of BMF's parent bank Bumiputra. British banks, too, have been burnt. Barclays



Most Hong Kong banks have reported profits growth, though generally modest.

Asia, regional merchant banking arm of the British clearer, is a lender to both Carrian and Eda and took the lead in petitioning for Eda's winding-up. Lloyds Bank International also appears to have suffered.

Bank of China, parent of a 13-strong "family" of Peking-owned banks in Hong Kong, was also caught out in the property-lending fray. Its affiliates are known to be leading lenders to Eda, and its management—in common with other banks—is reckoned to be taking a very tough line on new property lending this year.

But both Bank of China and HSBC have placed themselves in the forefront of the fight to boost confidence in Hong Kong, as worries about the colony's long-term political future multiply. Both have asserted their willingness to lend to local industry. HSBC led a move towards offering 20-year mortgages on New Territories property—significant because Britain's lease over that section of Hong Kong has just 15 years to run.

The thrust of the two-year restructuring, to be completed

in June this year, is to deny the bottom tier of registered deposit-taking companies (DTCs) access to short-term public deposits, pushing this money upmarket into the exclusive domain of licensed banks. A middle tier, licensed DTCs, comprises merchant banking institutions which can take short-term money but only in commercial deposits of HK\$ 500,000 or more.

The common thread running through delinquencies in the

registered DTC sector appears to be that of manager's seeing short-term public deposits run down, while the quality of loan books has deteriorated in line with the property market, where several DTCs had become heavily committed. First rumblings of trouble at a DTC-called credit in November caused several banks to rain in lending to DTCs as a whole via the interbank market, precipitating knock-on delinquencies.

Again, HSBC helped shore up confidence by offering a lifeboat to troubled DTCs. There may be one or two more delinquencies to come but bankers hope the shock waves have by now largely receded.

Chartered, and in some cases poorer, banks are doing less lending and more rescheduling in the domestic market. The outlook is happier for international bankers serving regional capital markets out of Hong Kong. Mutual undercutting of margins has given way to a "get-tough" policy on syndicated credits to international borrowers. Bankers, sensing the shift in the wind early this year, were resigned to higher margins depressing loan demand. Whether or not such a reduction will occur is not yet clear. Loans are taking longer to arrange, the haggling is tougher, but the underlying cash thrust of Asia's developing nations still appears strong.

About 20 banks found to their cost that vigilance was still high

## MAS shows its teeth

Singapore  
KATHRYN DAVIES

SINGAPORE'S banking scene has been enlivened in recent months by a series of minor dramas, as a result of which the Republic's quasi-central bank, the Monetary Authority (MAS), has assumed a higher profile than at any time since its performance came under attack by the Government two years ago. Frequent personnel changes at the MAS had caused some observers to conclude that the Authority was a rather toothless tiger, having been deprived of its responsibilities for the investment of Singapore's foreign reserves by the more recently created Government of Singapore Investment Corporation (GSIC).

Late last year, however, 20 banks, most of them foreign, found to their cost that MAS vigilance was still high. A long-standing source of official discontent, the practice of so-called "round tripping"—in which MAS reserve requirements of 26 per cent are effectively evaded by moving Singapore dollar deposits overseas and then re-depositing them as interbank deposits (which don't count for reserve purposes)—was stamped on heavily. The offending banks were summoned to the MAS to give a personal account of themselves, rebuked and fined—in one case reportedly as much as US\$1.5m. Almost simultaneously, the MAS chairman and first Deputy Prime Minister, Dr Goh Keng Swee, announced that the authorities would move in to clean up the gold market, which was in danger of becoming a casino where a few fly-by-night gold traders sold everything with customers' money except buying a futures contract on a recognised exchange. The official futures exchange, GES, through which only a small percentage of transactions are conducted, has been reorganised and all futures traders will now have to belong to it. The new chairman is Ng Kok Song, manager of the MAS international department, and there is a MAS presence on all the various GES committees. In addition, all committee members will first have to be approved by the authority.

### Blessing

This also has implications for the proposed financial futures exchange which is to be part of the GES once it is set up. At present a financial futures sub-committee within the GES is looking at what one committee member calls the "very complex" issues involved, including the nature of a relationship between the Singapore market and Chicago's IMM. The committee is being advised by Chicago Mercantile Exchange's executive vice-president Beverly Spence. The project has MAS blessing and the formation of a financial futures exchange is expected some time later this year.

The issue of personal probity in the banking community, particularly the allegation that some loan officers are corrupt, is clearly causing concern. Dr Goh referred to it earlier in the year when he spoke of well-educated, well-paid young Sin-

gaporeans who took bribes to the detriment of Singapore's pristine image as a global financial centre.

It has not been made clear officially how widespread such practices are but officers from two foreign banks have so far been charged in court, one with bribery and the other with embezzlement. It is clear that MAS is determined to stamp out such malpractices before they become widespread—much to the relief of the banking community as a whole.

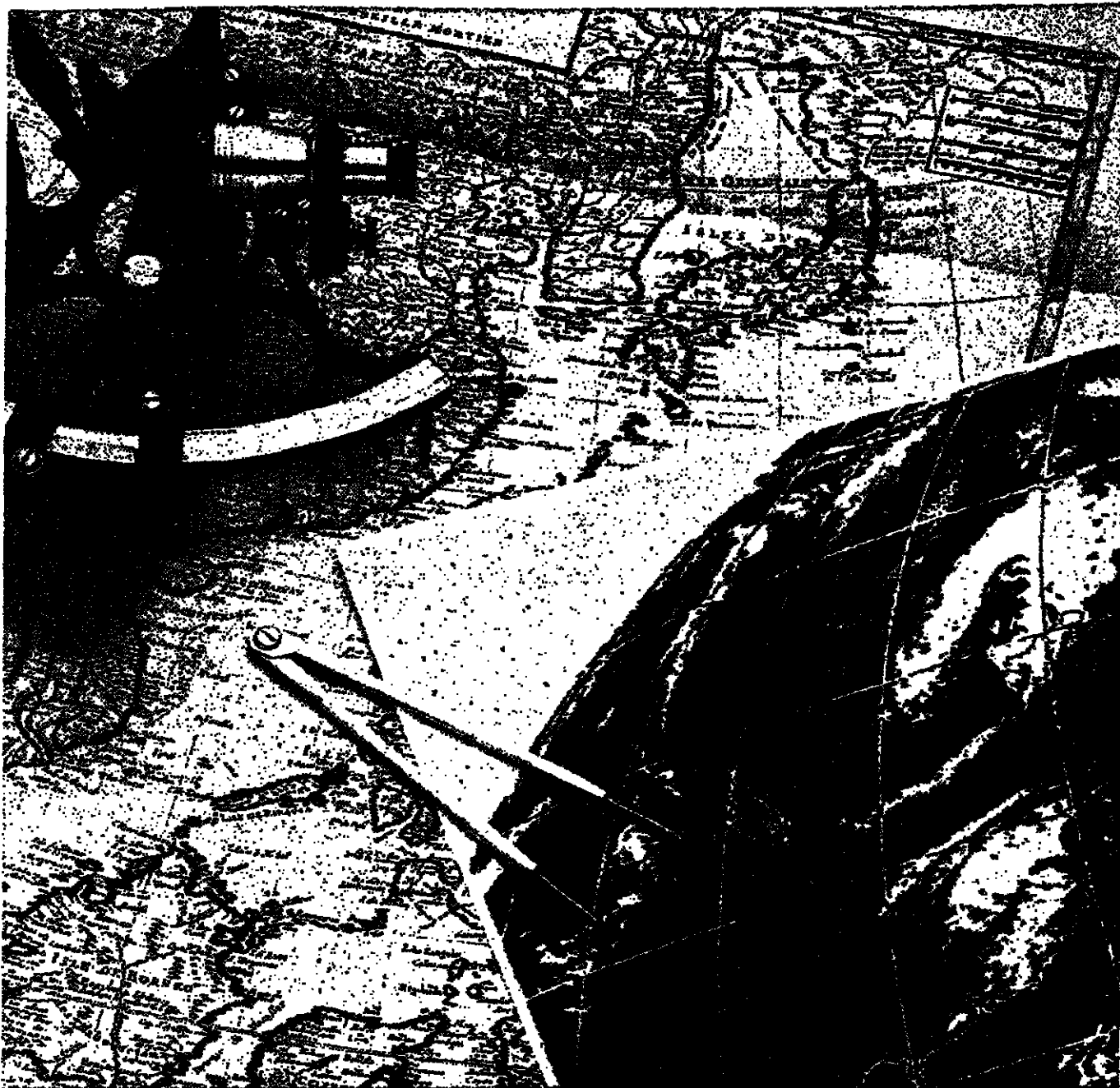
Singapore's role as a financial centre had seemingly been enhanced by the decision of three merchant banks in recent months to establish fund-management units in Singapore. But one of them—Morgan Grenfell (Asia)—has now moved its unit trust fund to Jersey in view of what is perceived as "tax ambiguities" in Singapore.

### Crucial issue

No definite ruling has yet been made on the crucial issue of whether gains from the sale of investments should be created as trading profits or as capital gains (capital gains on buying and selling shares are tax-free). The feeling of many bankers is that on this occasion the tax authorities will insist that they are trading profits and therefore taxable. Merchant bankers, apparently with MAS backing, argue that overseas investors will be thoroughly deterred from investing in Singapore-based unit trusts unless these are ruled as tax-exempt.

This year will see the emergence of Singapore's Post Office Savings Bank (POSB) as a fully-fledged commercial bank, able to offer a wide range of financial services. This could directly affect the profitability of the "Big Four" local banks and smaller banks, especially if POSB retains its tax advantage (interest earned on POSB savings up to a maximum of US\$50,000 is tax-free). The time of writing the Ministry of Finance had not announced its decision but banks with full licences would cry "foul" if POSB were able to maintain its existing network of 115 branches—when permission for other banks to open branches is sometimes only reluctantly given—and still offer tax-free service to customers. Most of the US\$2.5bn in savings garnered by the POSB is lent out to the Government for development projects.

Meanwhile the Big Four—Overseas-Chinese Banking Corporation (OCBC), Development Bank of Singapore (DBS), Overseas Union Bank (OUB) and United Overseas Bank (UOB)—have reflected overall economic downturn with lower earnings. In particular DBS profits have been affected by the necessity to make provision for bad debts caused by its lending to Poland and Mexico and defaulting property companies in Hong Kong. OCBC, on the other hand, has reaped the rewards of its traditionally conservative lending policy and has not had to make additional provision for bad debts as directed by the MAS. It too, however, like the others reported a decline in earnings in 1982.



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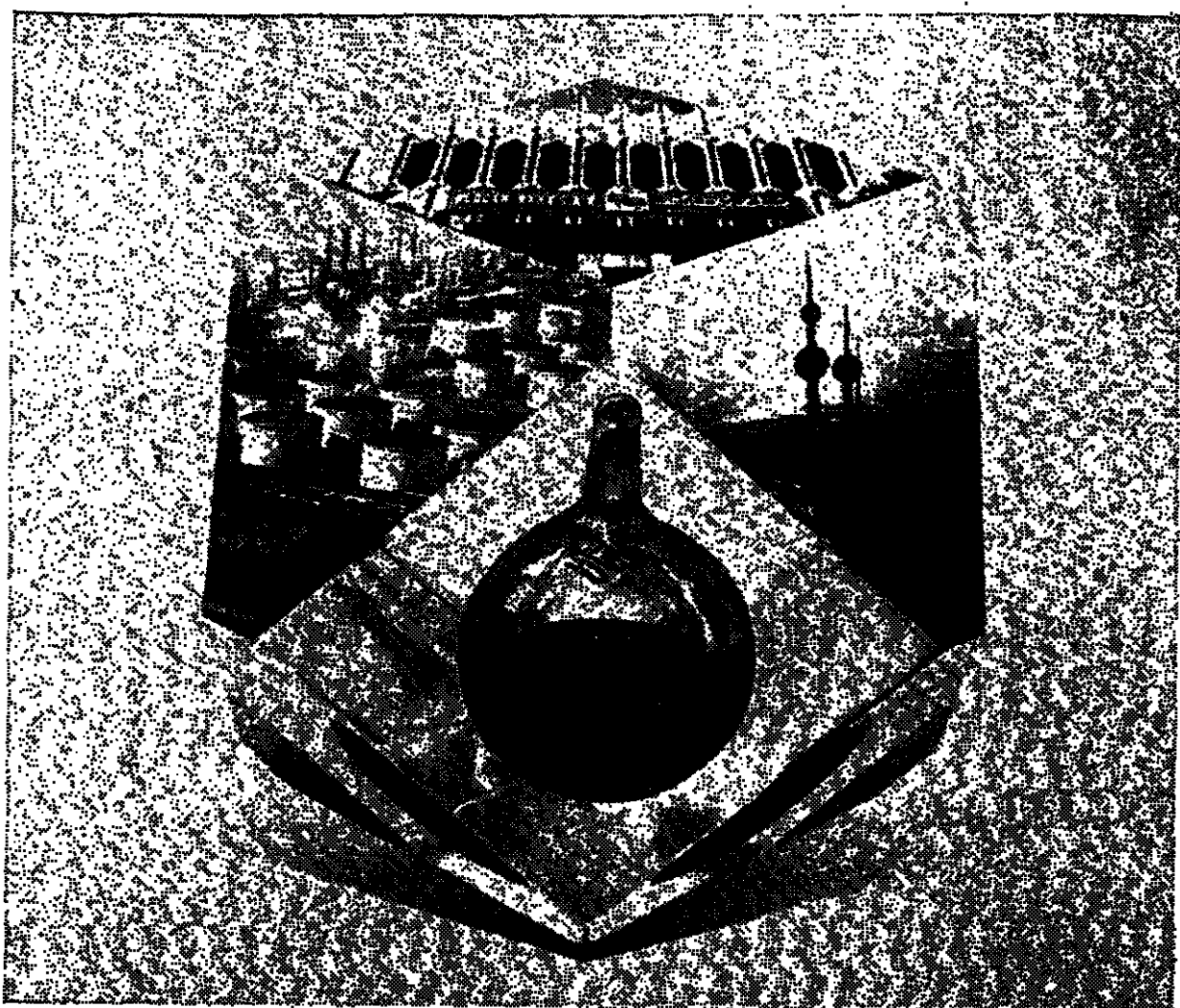


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April 1987

## Door shut on foreign banks

**MICHAEL THOMPSON-NOEL**

Paris and Bank of New Zealand — have full Australian licences, although many more have close ties with the country, including merchant banking, finance and investment interests.

Citicorp Australia, for example, which at present is 100 per cent owned by Citicorp of the U.S., has about 40 retail money shops, employs 1,400 and has assets of more than A\$2bn (£1.1bn). It also owns 49.9 per cent of Citifinational, a merchant

However, that was before the Australian general election of March 5, which saw the coalition partners swept from office and replaced by Labor, whose new Treasurer, Mr Paul Keating, had said before the election that the entry of foreign banks would lead to unnecessary deregulation of the local financial system and cost the country control over interest rate, monetary and exchange rate policy.

immediate neighbourhood (New Zealand, Papua New Guinea, Fiji and a number of the smaller Pacific Islands) but increasingly in Europe, the U.S., Hong Kong and Singapore.

Not that Australian banks are much exposed to risk. According to the latest study by the Reserve Bank of Australia, the largest aggregate claim by Australian banks on an individual country known to be experiencing debt repayment difficulties is on Mexico, where

The need, said Mr Bob White, Westpac's chief general manager, recently, was for a "competitively neutral, efficient financial system" in Australia, to ensure that the country's current severe recession was not unnecessarily prolonged. If progress towards that goal is slower under Labor than under the former government, it will be regretted in Australia. But these are still early days.

## Chafing under close restraints

**DAI HAYWARD**

official figures are available, bankers and financial observers say there has been an upsurge in lending by solicitors with a corresponding increase in the amount of funds being placed on deposit with them. The banking fraternity felt

trading income of NZ\$2.51m. It had a trading profit of NZ\$70m and a tax paid profit of NZ\$35.4m.

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1. *Journal of the American Medical Association*, 1997; 277: 1033-1038.



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ASIA: Malaysian bank rankings could change greatly by 1990

## Restructuring continues

**Malaysia**  
WONG SUDONG

KEEN competition is building up among Malaysian banks as they realign themselves under industrial corporate and political groups. At the same time, however, they are likely to move more cautiously in overseas expansion following the difficulties Bank Bumiputra, the country's largest, ran into over massive loans made to Hong Kong's financially troubled property groups.

If the world recovery materialises this year Malaysia will be seeing great times in 1983-84, predicts a prominent banker. "The old mines and plantations are now Malaysianised, which means money will stay within the country. Banks will be fighting to get a slice of the fighting pie."

Indeed banks in Malaysia have done very well for themselves, thanks to the expanding economy. According to Bank Negara, the central bank, "Since the early 1970s, the commercial banks have been enjoying one of the fastest growth rates in the economy, recording uninterrupted double digit rates of growth since 1971 and accelerating to an average annual rate of 26.5 per cent in the last four years."

The 1980s were characterised by the dominance of the foreign banks and the emergence of local incorporated banks. The 1970s saw the expansion of the local banks, with Bank Bumiputra and Malayan Banking overtaking the Hongkong and Shanghai Banking (HSBC) and the Chartered Bank as the top two banks in the country.

The current decade is witnessing the restructuring of banks, both foreign and local, so that the present rankings of the banks could be greatly changed by 1990.

There are 38 commercial banks and 12 merchant banks in Malaysia, of which 16 of the commercial banks are foreign-incorporated.

Growth of foreign banks has

been stunted by official discrimination, in that they are not allowed to open new branches and are not favoured by government deposits.

A couple of small foreign banks were restructured during the 1970s but the major restructuring exercise is just only beginning.

Like other businesses, banks have to comply with the Government's new economic policy which states that as soon as possible they should adopt the formula of 30 per cent for the

close associate of Dr Mahathir, the Prime Minister.

The small Kwong Lee Bank now comes under the industrial Malay United Industries (MUI) group of Datuk Khoo Kay Peng. Renamed the Malayan United Bank, it has set itself the target of becoming one of the top five banks by 1990.

As a *quid pro quo*, MUI has sold its 23 per cent stake in Southern Banking to Killinghall Tin, the listed flagship of the Crown Prince of Selangor

of the banking system remains very tight.

Appointment of bank directors needs the approval of the central bank; banks cannot lend money to directors, staff or their close relatives; senior bankers have to declare their assets each year.

"Prudent banking" is the watchword of Bank Negara. In early 1981, when the property boom was still booming, it made a critical decision by stopping local banks from funding Malaysian companies buying foreign properties. Local funds should be used for productive purposes within the country, warned the central bank.

But what was not realised then was that Bank Bumiputra had already committed itself to massive loans to Hong Kong property groups through its Hong Kong-based subsidiary Bumiputra Malaysia Finance (BMF). The latter is an autonomous entity outside the central bank's purview.

BMF has given out more than US\$300m—more than the entire shareholders' funds of the parent bank—to just three groups—Carrian, Eda (which is under liquidation) and Kevin Hsu.

That has been revealed is just only the tip of the iceberg and the issue threatens to explode into bitter political controversy and recriminations in Malaysia.

It is a delicate situation. Bank Bumiputra was set up specifically to help the economically backward but politically dominant Malays to compete with the affluent Chinese community.

Many Malays will find it intolerable that Bank Bumiputra has got itself into such deep trouble in Hong Kong. But to highlight its woes may lead to a run on the bank and years of careful government nursing of this institution would be set to naught—not to mention the erosion of public confidence in the Malaysian banking system.

The Government has said it will back the bank to the hilt. The situation is so far under control, as evidenced by the competitive yields and marketability of bankers' acceptances (BAs) issued by the bank.

### TOP SIX MALAYSIAN BANKS

Ringgits m—December 31 1981

	Assets	Deposits	Shareholders' Funds	Net profits
1. Bank Bumiputra	19,576	13,326	603	45.7
2. Malayan Banking	14,339	8,263	637	74.2
3. HSBC	4,525	2,437	n/a	39.9
4. UMBC	4,474	2,772	107	12.6
5. Chartered Bank	4,363	2,269	n/a	26.8
6. Public Bank	2,685	2,153	140	18.4

Note: For UMBC the figures are for the year ended June 30 1981. Figures for HSBC and Chartered Bank refer only to their Malaysian operations.

Malays, 40 per cent for the non-Malay Malaysians and 30 per cent for foreigners, in respect of ownership and management.

HSBC has submitted its equity-restructuring proposals to Bank Negara for approval, while Chartered Bank is expected to do so shortly.

Once these two foreign banks are locally incorporated and therefore unfettered by past restrictions, they are expected to move aggressively to regain lost ground and lost time.

No doubt both the HSBC and Chartered will be aligning themselves with influential political and corporate groups, since getting along with the right contacts is becoming increasingly essential in Malaysian business.

The newly incorporated Malaysian French Bank, successor to the Malayan operations of Bank Indosuez, has as its leading partner Daim Zaidudin, a property developer and

State. Killinghall is bidding for the rest of Southern Banking.

Datuk Azman Hashim, a prominent banker and well connected with the present political leadership, has bought over the Arab Malayan Development Bank, the largest merchant bank, and intends to build it into a financial conglomerate.

Bank Bumiputra, Malayan Banking, United Malayan Banking Corporation (UMBC) and the Bank of Commerce—four banks controlled by the Government—have had top management changes ordered by Dr Mahathir.

Many local banks have increased their paid-up capital many times in recent years, while others have brought in foreign partners to reinforce their operations.

Bank Negara is encouraging the development of healthy competition by liberalising many banking operations, including the freeing of interest rates, but central bank control

The country's foreign exchange bank has particularly blossomed in the last year

## More activity in Hong Kong

**China**

COLINA McDUGAL

AS CHINA liberalises its economy, the men who manage its banks grow noticeably more like their counterparts around the world. Bright, discreet and cautious, they run a banking system which is also beginning to bear more than a passing resemblance to those of other countries. The Bank of China, the country's foreign exchange bank, has particularly blossomed in the last year or so with a host of activities which are conventional in other countries but quite new to Peking.

This stems mainly from the need to handle China's new surplus of foreign exchange efficiently. By last December foreign exchange reserves had risen to \$11.8bn compared to only \$4.8bn the previous year.

The Chinese foreign debt to set against this is thought to be only about \$4bn. This healthy balance, the result of burgeoning exports and clamps on imports, has allowed the Bank of China to lend abroad, to widen its activities at home

and to support China's export trade with export credit.

China's reserves are lent out in increasing volumes through the London interbank market. Chinese bank activity has also risen greatly in Hong Kong, where it could be seen as an effort, at least partly to stabilise the political uncertainty and the collapse of the property market last year.

In February this year the Bank of China began making loans with a 50-year maturity to Hong Kong manufacturers at about 1 per cent below prime rate. This move was clearly designed to inspire confidence in the colony after 1997. At the same time the Bank began lending to small manufacturers who found it difficult to get loans from other banks.

In China the Bank has begun to compete with foreign banks for the foreign exchange element of domestic schemes. Last year the Bank of China took over a loan of \$852m for a big hotel project in Nanjing from the Hongkong and Shanghai Banking Corporation and its 1983 work programme envisages loans for the big energy projects which will be the backbone of China's sixth five-year plan.

These are likely to include the Pinghuo coal development, a partnership with a subsidiary of the American oil company Occidental, the proposed nuclear power station in Guangdong province, probably with the help of French and British companies, and the south-west China coal scheme which is still very preliminary. Transport and harbour construction may also be covered.

### Smaller projects

The Bank is also lending increasingly for smaller projects. The Daqing petrochemical works, for instance, was able to borrow to buy 12 automatic wax pressing and filtering machines from abroad. This type of lending is expected to expand, especially in the ports of Guangzhou (Canton), Shanghai and Tianjin where there are important export industries.

The ports will also be the focus of the new export credit scheme. The Bank of China now plans to offer low interest loans totalling \$500m to encourage exports of machinery and ships. A pilot scheme may be tried out in China's three ports—Shanghai, Tianjin and Dalian in north-east China.

With its comfortable surplus of foreign exchange China has not been seriously in the market for commercial bank loans. It is still seeking low interest aid loans, however, and by the end of April was close to signing a \$2bn loan from Japan. Terms have not been disclosed but are probably similar to the two-year

¥300bn loan provided in 1981, which among other things covered the first stage of the Baoshan steel works near Shanghai. The new loan would be for transport and communications under China's sixth five-year plan.

China has recently received around \$250m from the World Bank, over \$100m to help develop oil resources, \$75m for agriculture and \$70m for industry. It has also formally applied to join the Asian Development Bank, though this will be fraught with political difficulty as it may mean displacing founder-member Taiwan.

World Bank funds are distributed through the China Investment Bank, an institution set up in 1981 to gather and distribute foreign loans. Its activities are symptomatic of the many changes taking place in the domestic banking system.

### Two-year plan

The most far-reaching of these is the proposed foundation of a central bank separate from the present People's Bank of China, which currently fulfils both a central banking and a commercial role. Planning for the new bank may take up to two years. Its role and powers will be of particular interest to foreign businessmen since it is reported to be likely to supervise the Bank of China.

China's two other banks, the Agricultural Bank and the Construction Bank, are also changing. The Agricultural Bank, which runs a huge network of rural credit co-operatives, is having to adjust its policies to suit the abandonment of the people's communes. Individuals and households, rather than production teams and brigades, now have to be able to get loans to buy equipment.

The Construction Bank, which was originally instituted to provide loans to industry, has this year become a watchdog. China's capital construction is already exceeding its plan and the Bank has been warned to close some loan accounts and discourage all further investment.

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Ville de Québec	Can. \$ 25,000,000	(1982-1987)
Fonds de Rétablissement du Conseil de l'Europe	ECU 25,000,000	(1982-1990)
Istituto Mobiliare Italiano	US \$ 50,000,000	(1982-1992)
Province de Québec	Can. \$ 50,000,000	(1982-1988)
Dome Petroleum	US \$ 50,000,000	(1982-1989)
Ville de Montréal	US \$ 100,000,000	(1982-1992)
National Financiera SA	Can. \$ 50,000,000	(1982-1987)
Province de Québec	Can. \$ 50,000,000	(1982-1989)
EDF	US \$ 100,000,000	(1982-1989)
C.N.T.	US \$ 275,000,000	(1982-1990)
S.N.C.F.	US \$ 150,000,000	(1982-1988)
Sociétés de Développement Régional	ECU 30,000,000	(1982-1992)
Gas Metropolitan	Can. \$ 20,000,000	(1982-1990)
General Motors Acceptance Corporation of Canada, Limited	US \$ 100,000,000	(1982-1988)
Province de Québec	Can. \$ 50,000,000	(1982-1988)
Fonds de Rétablissement du Conseil de l'Europe	ECU 30,000,000	(1982-1992)
Gaz de France	Can. \$ 75,000,000	(1982-1989)
Crédit d'Équipement des Petites & Moyennes Entreprises, C.E.P.M.E.	ECU 50,000,000	(1982-1990)
S.N.C.F.	US \$ 75,000,000	(1982-1992)
Gas Metropolitan	Can. \$ 40,000,000	(1982-1992)
Ville de Québec	Can. \$ 25,000,000	(1982-1992)
Société Générale	US \$ 125,000,000	(1983-1991)
E.E.G.	ECU 50,000,000	(1983-1993)
B.F.C.E.	US \$ 500,000,000	(1983-1988)
Crédit d'Équipement des Petites & Moyennes Entreprises, C.E.P.M.E.	Can. \$ 50,000,000	(1983-1990)
Province de Québec	ECU 50,000,000	(1983-1989)



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## WORLD BANKING XVI

To safeguard the final tranche of its IMF loan India has to take particular care to meet performance criteria

# Poor outlook for lending and profits under IMF restraints

## India

K. K. SHARMA

WITH THE slowdown in the Indian economy in 1982, due to adverse weather conditions and setbacks in the international situation, banks in the country faced the prospect of lower profits. This was exacerbated by the Government's decision to ask them to provide low-interest loans for its politically-motivated 20-point economic programme and restrictions by the Reserve Bank of India on credit for industry.

Results of the banks' operations in 1982 will be known in the next few weeks when they finalise their balance sheets, but bankers concede

that operating profits will be down at a time when prospects for 1982 are not too bright.

In 1982, they recorded a lower rate of growth in deposits and credit expansion, particularly to industry and trade.

Aggregate deposits of scheduled commercial banks increased in 1982 by only 12.9 per cent to Rs 506bn compared to the net rise of an impressive 12.9 per cent to Rs 445bn in 1981.

Similarly, total bank credit expanded by just 10.1 per cent to Rs 332bn in 1982 compared to the net expansion of 22.2 per cent to Rs 301bn in 1981.

The Government is keeping a close watch over bank credit because of the performance criteria laid down by the International Monetary Fund for the record \$5.7bn three-year loan taken by India in

1981. Crossing the ceilings on bank credit could jeopardise the final year's instalment of the loan, and this is one reason for the slowdown in the banks' operations.

The growth rates, because of the close monitoring of banking operations by the Government and the Reserve Bank, have been in accordance with the projections made for the year. But the outcome of the slow deposit and credit expansion is the abnormal increase in liquidity, particularly in the latter part of 1982.

### Aggravated

Credit restrictions by the Reserve Bank were already in force when the year began. As it became clear that industrial investment and production was suffering because of the tight curbs, there was some relaxation, but this proved

insufficient to stimulate activity as semi-recessionary conditions had already set in and these were aggravated by cuts in governmental expenditure and the poor monsoon (upon which the performance of the Indian economy depends).

The Reserve Bank, in consultation with the Ministry of Finance, has now lowered the lending rates with effect from April 1, although there is no commensurate fall in the deposit rates of the commercial banks. The Finance Minister also announced in his budget, presented to Parliament on February 23, that the tax on banks' incomes, owing to interest earnings, will be reduced by 50 per cent.

But the impact on banks' profitability is not expected to be anything but marginal, partly because the income tax on companies was raised

at the same time by the Finance Minister. This happened at a time when they are being saddled with the financing of the Government's political-economic programmes from which returns are poor.

The Government has stipulated that the 22 nationalised banks—largest in the country which effectively account for more than 80 per cent of the entire banking operations—will give preference to the so-called "priority sectors" (farmers, small shopkeepers, artisans, etc.) under such schemes as the differential rate of interest or various rural development plans.

The returns from these are not only low but could actually lead to losses since the proportion of bad debts which have to be written-off is unusually high.

This would normally have been made up by lucrative

advances to industry and trade, but this has been made difficult by the restrictions on credit to the traditional sectors at a time when they are facing semi-recessionary conditions.

Faced with the prospects of low returns from normal banking operations and losses on account of the increase in services to under-banked rural areas, a debate has started on improving the efficiency of banks.

### Deteriorating

Since the industry is virtually owned by the Government, the bureaucratic service in Indian banks is notoriously poor and is deteriorating.

Apart from heavy wage bills and high establishment costs, as well as the losses on account of opening branches in low-profit areas, the banks

could face a crisis because of other avenues of investment for the public.

The Indian capital market is at last showing signs of functioning and companies are tapping investible funds that would otherwise have gone into banks as deposits. Companies are now permitted to accept deposits at interest rates that are nearly six to seven per cent higher than what the banks can pay.

Some banks are seeking a cut in deposit rates, but this would only lower the rate at which they attract resources at a time when competing channels are opening up.

The otherwise bleak picture of banking in India has been relieved by the new openings for foreign banks and foreign operations of Indian banks because of the increased recourse by the government to commercial borrowings abroad. These are now being

negotiated at an average of \$1bn a year.

Since India's credit rating is good because of its low borrowings in the past and its unblemished record on repayments, there is a growing queue of foreign banks wishing to open branches in India.

A few branches have already been licensed—in addition to those which have already been operating for decades—but the government is taking a cautious line on this.

Partly, this is due to the growing experience and confidence of Indian banks in foreign financial operations and, partly, it is due to the insistence on the principle of reciprocity. This means that licences will be given to foreign banks to open offices in India, provided that Indian banks are allowed to operate in countries of their origin.

## Trail-blazer in Islamic banking

### Pakistan

MOHAMED AFTAB

"O believers, fear Allah and give up that interest which is still due to you, if you are true believers: but if you do not do so, then you are warned of the declaration of war against you by Allah and his messenger." (Verses 278 and 279 Surah al-Baqarah, Holy Koran.) THIS IS what the Koran ordains about bank interest. Despite this, most Muslim countries still practise a Western-style interest-based banking system. But some of them have now begun to pay closer attention to Allah's call—in the wake of what is known in the West as Islamic resurgence.

Among them Pakistan has

done some trail-blazing work in introducing Islamic banking. It has generated a good deal of interest among several other Muslim nations, where scholarly literature has always been available on the subject. The bankers there have now started limited banking operations.

### Expressive

Islamic banking, which is known in Pakistan by its more expressive name of "Profit and Loss Sharing (PLS) savings accounts," yields profits ranging around 1.25 per cent a year higher than the bank interest available from the traditional interest-based savings accounts. Similarly, as against a 9.5 per cent interest on term deposits of a six-month duration, the yield from the PLS term deposits for this period goes up

to 11 per cent. In 1981 it was up to 12 per cent.

PLS aptly describes the name of the game. A depositor receives a percentage profit at the end of each half-yearly cycle. The rate of profit is unknown when you put the money into the bank, theoretically it can range anywhere from zero upwards. Theoretically, too, if the bank invested your deposit in an operation which lost money instead of turning a profit, you may lose a part or even your principal.

What chiefly distinguishes PLS from the old interest-yielding accounts is, among other things, the underdetermined nature of the yield, as in ordinary trading where you make a profit or incur a loss. It is generally not known, however, at the start of a deal what the rate of profit will be. Islam

prohibits a "pre-determined" rate of return on financial transactions by the banks because, it says, that is interest.

Islamic banking offers two choices: a savings account with or without cheque facility or a term deposit which is for a fixed period ranging from six months to five years (term periods are six months, one, two, three, four or five years).

Starting from zero on the day Islamic banking was born at the beginning of 1981, the deposits rolled to Rs2.6bn in six months and to Rs6.48bn by December 31, 1981. Deposits pushed past the Rs 9bn mark in June 1982 and by late April 1983 stood at Rs 14.18bn over Pakistan's a whole, reports Mr. M. R. Khan, chairman of the Pakistan Banking Council, who oversees 7,200 branches of five nationalised Pakistani banks.

The PLS deposits are 16.6 per cent of country's total deposits (including all interest-based savings, current, term and all PLS accounts) of Rs 55.42bn as of late April 1983. Mr. Khan says: "PLS deposits grew at the rate of Rs 125m a week in 1982 and Rs 175m a week in 1983." The interest-bearing deposits are growing at a rate of 10.9 per cent a year, compared to a 100 per cent growth of PLS in 1983.

Mr. Khan says that when Islamic banking was started in 1981 most of the PLS accounts were opened by converting the interest-based savings into new accounts. "During 1982 and 1983 there has been a further increase as the bulk of the PLS accounts are either new savings or the interest-based term deposits which are being transferred into PLS term deposits." Now, when non-interest bear-

ing (PLS) accounts are available even these people are bringing in deposits and helping to boost the savings. In that way, he feels the PLS system is helping in mobilising more savings, although it may, as yet, be hard to quantify it. If the trend lasts, it will help the economy, because Pakistanis only save an estimated 5 per cent of the GDP, instead of the 20 per cent which economists feel is required for growth.

This buoyant outlook is based on the fact that PLS accounts have offered between 8 and 8.5 per cent profit during 1982, while it was up to 9 per cent in 1981. The 1982 profit was generally half a per cent lower than in 1981. Even now the yield is better than the 7.5 per cent the bank offers on the common (interest-based) deposits.

But the lower rate of profit in 1982 on PLS compared to the previous year has set the bankers thinking. They must offer attractive profit rates to keep the new banking growing. One explanation for the yield reduction is that the portfolio in which the money from PLS deposits can be invested is reaching a saturation level. It is not as profitable as it was in 1981.

The most important reason for reduced profits, however, is

the fact that the Government is charging a higher "management fee" on PLS operations. It varied between 5 and 10 per cent in 1981, depending on the performance of each bank. It was then kept low in order to make PLS accounts attractive. But by 1982, when the system had gained ground, the fee was raised to 10 per cent, leaving a smaller overall amount for distribution as profit to depositors.

### Instruments

While Islamic Banking starts as the centre-piece of Pakistan's Islamisation of the economy, significant moves have been made in several other directions. Some of the new instruments and institutions in use are:

● **Musharika:** A form of bank participation in the equity of a company or business for proportional sharing of the profit.

● **Modaraba:** A business in which a subscriber participates with money and the manager with his enterprise. The profits are shared on the basis of agreed terms.

● **Participation term certificate:** A new corporate instrument for financing long- and medium-term local currency financing not exceeding 10 years. Profit and loss are shared

by the certificate holder and the borrower.

● **Investment Corporation of Pakistan:** This state-owned company has converted all of its 19 interest-based mutual funds on to a profit and loss basis since 1981.

● **National Investment Unit Trust:** This Government company switched from interest-based operations to an interest-free dividend distribution from July 1979.

● **Small Business Finance Corporation:** Owned by the state-owned National Bank, it introduced in July 1980 a new profit and loss sharing loan plan for cottage industries, small-scale industrial units, workshops, small businesses and artisans.

● **House Building Finance Corporation:** This state-owned home loan company started advancing loans on profit-sharing basis in December 1978. On its loans it receives a share worked out on the basis of the rental value of the property built.

● **Bankers Equity:** Owned by the state bank (central bank) and commercial banks, the company provides industrial finance to private enterprise. Its operation is based on investment financing linked to profit and loss sharing.

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LATIN AMERICA: few changes in Mexican banking system

## Treading with extreme caution

## Mexico

WILLIAM CHISLET

THE NAIL-BITING over Mexico's newly nationalised banking system has ended. When the country's 58 private and mixed capital banks with assets of 3,522,000 pesos and deposits of 2,236,000 pesos and 123,000 employees were taken over last September by the outgoing Government of Sr Jose Lopez Portillo dire predictions were made about the Mexican financial system.

Many people feared that the banks would be controlled by the notoriously corrupt political class and that in a matter of months they would be decapitated and bankrupt. The banks' shares in over 300 companies, including joint ventures with foreign companies like John Deere and Kimberly Clark, were also taken over.

Some eight months later, the banking system has hardly changed. It has been run on peso deposits. Dollar accounts totalling \$12bn were abolished and converted into pesos last September. Political changes have been at the very top where the former chairman have been replaced by state bankers.

## Public image

Even the state advertisements in before nationalisation are being run on television in order not to arouse fears of change.

The five month old Government of President Miguel de la Madrid is treading with the greatest caution over the banks. It is anxious to preserve what has become a fairly efficient banking system and avoid a collapse.

Sr de la Madrid, who was hand-picked by Sr Lopez Portillo, (the Institutional Revolutionary Party has ruled Mexico for 54 years but presidents only serve one six-year term of office) was only informed of the nationalisation the night before the banks were taken over.

According to most accounts, Sr de la Madrid did not believe that the move was necessary, since the banks were already tightly controlled through high legal reserve requirements with the central bank.

But Sr de la Madrid has publicly said nothing which would be misconstrued as criticism. It would be politically very con-

tentious for the Government to hand the banks back to the private sector.

The ruling PRI has claimed the nationalisation as another hard-won "conquest" for the people.

However the Government has stated that it will return up to 24 per cent of the bank shares to the private sector with a limitation that no individual or corporate body can hold more than one per cent of the capital. The reason for the nationalisation had more to do with the personality of Sr Lopez Portillo than with Mexico's debt crisis. The commonly held view is that Sr Lopez Portillo took over the banks and fished out at bankers the staggering outflow of dollars in order to find a scapegoat and get his name in the Mexican history books at a time when he was being publicly ridiculed for mishandling the economy.

The Government is pursuing a conservative banking policy, which is modelled to some extent on the French nationalised banking system. It wants to keep the banks efficient, productive and profitable and let the traditional state banks like Banamex continue to finance industrial development at low costs.

Profits declined massively in real terms last year. Bancomer and Banamex, the two largest banks which control over half the assets, had profits of 4,430 pesos (1982) and 4,130 pesos (1981), when inflation was about 100 per cent, after net income for both banks in 1981 of 4,130 pesos.

Part of the poor performance was due to the large increases in the reserves for loan write-offs which had to be made because of the crippled state of heavily indebted companies. Firms have been squeezed by the devaluation of the peso which fell over 75 per cent against the U.S. dollar in 1982.

The outlook for this year as a whole is for higher profits in nominal terms although bank business is currently depressed. Companies are awash with pesos because they have not been servicing their loans for some months and their dollar

accounts were turned into pesos.

They have been amassing pesos to lock themselves into the recently announced government debt rescheduling schemes for the private sector where dollars can be bought for future delivery at favourable rates.

From liquidity is now being sucked up and the demand for loans, the bedrock of profits, will become intense again. The Government has reversed the last administration's populist policy of limiting to 5 per cent the margin which banks can charge over the central bank's average cost of funds (CFF). It has also increased the interest rates on deposits, which were negative in real terms in 1982.

## Interest rate

The CFF, the benchmark for loans to which banks add their margins, was 57.21 per cent in April, compared to 46.42 per cent in April 1982. The banks' margin is 3.12 per cent and another 20 per cent is charged in the form of compensating balances — making an effective interest rate on loans of 80.39 per cent.

The Government, under Sr Carlos Salas, the very experienced and able deputy Finance Minister for the banking system (a newly created title), wants to merge the 53 banks into six — one group with no group holding less than 7 per cent of the market.

Specialisation has been ruled out. The banks will remain "multiple" banks, providing a full range of services along the German universal bank pattern.

Mexico's banking presence abroad will also remain largely unchanged, although there is currently little justification for maintaining the same strength since interbank deposit business has dried up and the banks are not in a position to participate in syndicated loans. Activity on the trade front is also low.

The authorities feel, however, that Mexico should not take a short-term view, after a hard-fought offensive three years ago to set up branches abroad, when they expect the country to re-

cover in several years time.

Bancomer, Banamex, Serfin and Comerci, the top four banks, are thus likely to keep their separate identities and branch offices in London, New York and Los Angeles.

However there will be a streamlining of the offices abroad of the long-time state-run banks like Bancomer and Nafinsa. Their presence abroad was considered an unwarranted luxury even when the Mexican economy was booming.

Just as there has been no dramatic run on peso deposits, so the authorities have also managed to contain what could have developed into a serious haemorrhaging of its interbank deposits.

The withdrawal of these deposits compounded the country's foreign exchange liquidity squeeze.

The top banks sweated profusely last August and September when foreign banks, which had placed short-term deposits with them, began to call them in. By December the outflow had been stemmed.

Mexico's international credit banks have reluctantly committed themselves to maintain the level of interbank deposits at \$5bn. The level last month was estimated at about \$5.4bn, down from about \$6.7bn before nationalisation.

Meanwhile the authorities are still wrestling with the intricate problem of how to compensate the former bank owners. Once the banks' net worth is evaluated, probably in June, the Government will issue bonds with a maximum life of ten years and a two-three year grace period. Interest will be backdated to September 1, 1982.

The Government may allow bond holders to use their bonds to buy back 1 per cent stake in the banks and also purchase the banks' shares in companies.

The banks' shares in companies are being evaluated on the basis of 50 per cent of the book value on August 31 1982, and 50 per cent of their average daily value on the fifteen days before the nationalisation. Exchange in the 12 months before the nationalisation.

## MEXICO'S TOP FOUR BANKS

(Pesos; bn)

	1979	1980	1981	1982
Assets	225.5	328.5	483.5	449.7
Net profit	2.4	2.9	4.1	4.1
Assets	207.5	304.6	449.7	449.7
Net profit	0.5	0.5	1.5	3.0
Assets	72.2	119.0	153.2	295.7
Net profit	0.5	0.5	0.8	0.8

Bancomer .....  
Banamex .....  
Banco Serfin .....  
Multibanco Comerci .....

The fall in oil prices has had a disastrous effect on Venezuela

## Money supply dries up as economy slides into semi-paralysis

## Venezuela

JOSEPH MANN

A FEW months ago Venezuelan bankers were complaining that profits were down in 1982. Liquidity was too tight and that the Government of President Luis Herrera Campesino was making a poor hand of halting capital flight and pulling the country out of a four-year recession.

Today, however, the Venezuelan banking community is looking back on this period with longing. The national economy is in a state of semi-paralysis and international trade has slowed to a snail's pace. Businessmen and bankers expect a major shakeout this year, with serious consequences for the private financial sector.

Venezuela's currency — the bolivar — has suffered a large de facto devaluation and foreign exchange is in short supply. The country's Gross Domestic Product (GDP) will contract this year and business analysts expect a sharp drop in revenues from oil exports, rapidly declining international reserves (down \$11.2bn in 1982) and problems in repaying its foreign debt, the Herrera administration ordered exchange controls, a three-tier exchange rate system for the bolivar, strict controls on the prices of all goods and services, widespread bans on imports and a variety of other measures.

This oil-exporting South American nation had not experienced exchange controls since the early 1960s and until earlier this year, the bolivar — formerly

pegged to the U.S. dollar at 4.3 bolivars — was one of the world's most stable currencies. Dollars on the free market traded last week at a high of 10.1 bolivars, which means the Venezuelan currency value has dropped 135 per cent in value since capital controls were instituted.

Thus far, these official measures have done nothing to create any confidence in the Government or the national economy but they have had a strong adverse impact on the private banking system and its industrial and commercial borrowers. Money Supply (M2), deliberately kept under strict control by the Government as an anti-inflationary measure, shrank in real terms last year. In 1982 so far money supply has been off slightly from the year-end 1982 figure of 128.1bn bolivars.

## Money supply

Loan portfolios and deposits at commercial banks are also down (by 1 per cent or less) from last year's closing figures and loan-deposit ratios in recent weeks have been 82 per cent, up from a moderately tight 76.5 per cent a year ago.

Domestic money supply has been affected by other factors, too, such as a shortage of funds in the hands of the Government, usually a major depositor and supplier of domestic credit. Even worse, the banking system was shaken last November by the Government's takeover of the Banco de los Trabajadores (BTW), the country's largest bank, with assets reported at \$5.9bn. The near-collapse of BTW sent shock waves through the financial system and the Government's decision to make good on deposits severely taxed the Treasury's resources.

BTW, jointly-owned by the Government and the Confederation of Venezuelan Labour (CTV), was intervened after gross mismanagement and widespread corruption drove the institution into a liquidity crisis. Besides shaking con-

science in the banking system as a whole, BTW's near failure also produced a situation which exacerbated liquidity problems. The bank continues to absorb money from the pool of available domestic funds (both Government and private sector) in order to pay back hundreds of thousands of worried depositors.

Government officials have said privately that BTW, whose commercial assets represent only about 8 per cent of its total loan portfolio and about 6 per cent of total assets, will be slowly liquidated.

Despite Government exchange controls Venezuela's economy continues to move toward offshore, thus putting even more pressure on domestic liquidity.

Interest rates in general remain several percentage points above commercial rates in the U.S. But even before the current crisis this situation did not attract capital from overseas. Businessmen and the Government would like to see interest rates drop. In fact bankers feel that unless they voluntarily lower rates, the Government will order controls on rates.

Bankers, however, say that interest rates cannot drop significantly, since a sharp rise in domestic inflation will occur this year and next (the result of higher prices of imported consumer goods). Furthermore, private bankers feel that if they lower interest rates now people will simply borrow bolivars and buy more dollars.

Recent rates at a major commercial bank were sixteen per cent for commercial loans and thirteen per cent for time deposits.

Bank executives interviewed in recent weeks are gloomy about profit prospects this year. Loan collections are already "very difficult," according to one commercial bank manager, and a number of business failures are expected this year because of the current economic bleakness.

Profits last year at Venezuela's

41 most important commercial banks were \$176.7m, down from the second consecutive year. (Net profits in 1981 were \$181m and in 1980 stood at \$22m. Earnings in 1982 were affected by shrinkage in collections on loans which in turn led to low confidence in the system was influenced by capital Venezuelan economy and restricted money supply.

## Reaction

According to Mr Richard B. Loth, an American financial adviser who is an expert on the Venezuelan banking system: "Prospects for the country's banks are very confusing. Exchange controls have produced a new ball game for everyone and the financial system is still reacting."

The Government recently moved to increase the role of commercial banks in distributing foreign exchange in Venezuela but bankers say that the exchange control rules remain "in a state of flux."

Loth, who has held overseas posts at Citibank and Bank of Montreal, also said that if he proved their profits, they must follow the trend of banks in other countries and offer non-financial services. In addition, general liquidity must be improved.

The entire Venezuelan banking system is competing today for the same shrinking pool of short-term money. Liquidity growth for the past two years has been negative in real terms and the system has been illiquid. How do you get the economy to move ahead if there's no money in the system?

Besides, in the competitive, high-interest rate environment in Venezuela, better profits have to depend on more than just buying funds at one price and selling them at another," he said. "Operating efficiency at banks can only be increased so much. Unless new sources of non-interest income are created and the country's over-specialised banking system made more flexible, it has nowhere to go except down."



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### OPERATIONS

Together with its soft loan affiliates, the African Development Fund and the Nigeria Trust Fund, the African Development Bank had by the end of 1982 cumulatively invested a total US\$ 3.87 billion in the African economies.

During the current Five-Year Plan, 1982-86, the African Development Bank Group has a lending target of US\$ 7.3 billion, almost twice the cumulative

total since commencement of operations in 1967. Of this total 33% will go to Agriculture (Food production, in particular), 22% Transport, 20% to Public Utilities, 11% to Industry and Development Banks, 9.0% to Health and Education, and the remaining 5% to financing non-project activities.

### THE FUTURE

With a relatively comfortable resource level from the enlarged capital base and the subsequent enhanced capacity to borrow more in the international financial markets, the African Development Bank and its affiliates face the future with a high degree of confidence; it is determined to play its part in the promotion of economic development and social progress in Africa.

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## WORLD BANKING XVIII

**LATIN AMERICA: Argentina's rulers clamp down on banking operations after its armed forces surrendered to the British on the Falklands last year.**

## Back under tight controls

**Argentina**  
JERRY BURNS

THE LAST YEAR has seen the Argentine banking sector subjected to major changes. In July the Central Bank put the lid down firmly on six years of open market monetarism by issuing 200 new regulations. Not all the rules have been applied and some have simply been ignored. But the overall effect of the measures has been clear enough. Argentina has once again one of the most controlled banking sectors in the world.

The prospect is that this control will get tighter if and when a civilian government emerges from the elections scheduled for October 30.

The changes were inevitable from the moment the Argentine armed forces surrendered to the British on the Falklands on June 14 last year. On that day opposition to the policies pursued since the military coup of March 1976 erupted with a vengeance.

Apart from the generals, it was the bankers and their previous economic "overlords" who faced the most bitter criticism. In the popular Argentine jargon, this was widely epitomised by the slogan "La patria financiera" (Financial Mafia, in loose translation) to describe the alleged enrichment of the banking sector at the expense of the ordinary man.

In six years of military rule, the country's foreign debt had increased from \$7bn to \$39bn, bank branches had proliferated, some bank profits had soared. By 1979 bank deposits represented 26 per cent of GNP compared to 8 per cent in 1975. Against this the pamphleteers set a negative growth rate, rising unemployment, and a drop in real salaries over the same period of 40 per cent.

The popular condemnation of the banking sector found its most visible symbol last year in one of many angry demonstrations outside Government House. It was organised by bankrupt shareholders of the Banco de Intercambio Regional, formerly the country's second-largest private bank.

### Empires

The collapse of the BIR in the spring of 1980 was the first sign that something had gone desperately wrong with the ambitious banking reforms introduced by the Junta's first Economy Minister, Sr Jose Martinez de Hoz. The crisis that followed BIR's downfall involved banks linked to industrial and commercial holding empires which had mushroomed into empires following the 1976 coup.

A common feature of the bank collapses was the large degree of dubious self-lending practices. The banks also distinguished themselves by a reckless scramble for deposits which followed the Government's restoration of a system of totally free interest rates.

"It was a period when anyone who had the money could start a bank without having the slightest experience and when the Central Bank was unable or unwilling to control the distortion of banking rules," recalled a leading industrialist. Arguably the package introduced by Sr Domingo Cavallo, Central

Bank Governor, last July was less a reform than a conscious attempt to defuse growing political discontent by returning to the kind of banking rules defended by civilian governments before the coup.

In practice Argentine bankers over the past year have been adapting themselves to a system which is remarkably similar to that which existed during the two Peronist Governments which spanned most of the post-war period.

The two principal mechanisms were taken straight from the Peronist copy book. Interest rates were set to officially fixed maximums laid down by the authorities, and which were

estimated the unstable political context in which the Central Bank was moving. "To implement such reforms you need to have a strong military president or a Government that has just been elected by a handsome majority," Cavallo was part of a regime that was on the way out," commented a local economist.

Within hours of the Cavallo announcement there was a massive withdrawal of funds from short-term deposit accounts — the bulk of deposits in the system — and a massive panic buying of physical assets. But the price rise which followed was a great deal more dramatic than Cavallo had estimated,

ceiling on 30-day deposits would be increased from 8.5 per cent to 10.5 per cent and that the rate on the large credits re-leased through the Central Bank rediscount window in July would increase from 9 per cent to 11.5 per cent per month.

The tendency towards greater "dirigisme" in the economy has continued, however, with both Solar and Sr Jorge White, his economy minister, under considerable pressure from nationalist military officers and the civilian parties. Thus the Government has offered favourable credit terms to over 1,000 companies which adhere to an obligatory system of price control over the next year. Loans will be offered at 2 percentage points below the official ceiling. Companies affected are also entitled to soft loans to cover their wages bill.

Reliable, comprehensive, figures are still notoriously hard to come by in Argentina. Nevertheless there is evidence that the process in which the public switched their monetary assets into physical goods and real estate as a hedge to their savings may have slowed slightly. A useful source of funds for many banks today are inflows and exchange rate linked deposit accounts.

### High charges

Bank profits generally have kept up thanks to the spreads offered on the interbank "call market" as well as the alternative services. Some locally based foreign banks, for instance, are opening up letters of credit to importers with very high commission charges. Trading in the external bond market is also active.

One of the major problems facing the banks is the difficulty of retraining their labour force to the new operational structure.

Bank personnel during the Martinez de Hoz era were geared to the enormous amount of paper churning in clearing deposits and loans with short maturities. It was usual for the loan book of a bank to turn over every four to six weeks. Nowadays most banks are heavily overstaffed, although management is reluctant to shed labour because of the power of the Peronist-controlled union movement.

Most Argentine bankers are reluctant to offer any firm prediction about the future. This is partly the fault of the military which is far from overjoyed with the prospect of handing over power, and partly the fault of the politicians who remain ambiguous about their plans. Investment thus remains sluggish, although the authorities insist there are definite signs of recovery on the industrial front, that the monetary and fiscal targets are being met, and that the country's debt burden has been slowed out, thanks to the fresh money and a bumper harvest.

Official statistics show that GDP registered an increase of 2 per cent in the first quarter of 1983 compared to the same quarter of 1982. Money supply rose by 10.9 per cent in January, 7.4 per cent in February, and 6 per cent in March, giving a first quarter total of 26.2 per cent — well in line with the IMF target. The Government hopes to win the fight against inflation by 46 per cent in the first quarter compared to a Government target of 38.3 per cent.

**Brazil's emergence as a leading debtor nation has left no option but to retrench**

## Throttle closed on borrowing

**Brazil**

ANDREW WHITLEY

"FOOLS RUSH in where angels fear to tread" is a saying many Brazilian bankers, trapped abroad by a whitewash of confidence, must be ruefully pondering these days. Only 18 months ago the future looked golden. With interest rates freed at home and a Government pushing them to borrow abroad as much as possible, their 1981 balance sheets showed record-breaking results.

There were profits to be made hand over fist from domestic money market operations and normal commercial lending. There was even better business to be had, however, if you had your own branch abroad to attract foreign funds for on-lending to Brazil-based customers.

Between the end of 1979 and last September, when the Brazilian crisis broke, the number of foreign branches of Brazilian banks leapt from 108 to 108. The loans they raised under Resolution 63, a principal channel for foreign borrowing, rose in ever more spectacular fashion — from \$7.7bn to \$14.7bn.

Pushing in support of Brazilian exports and their own loan operations, the Brazilians played the inter-bank market

for all it was worth. It was a case of borrowing short to lend long.

What few realised was how dangerously overexposed they had become and how quickly the situation could turn around once foreign banks sensed the Brazilian Government might have trouble meeting its obligations.

Within weeks of the Mexican and Argentine debt crises last August, Brazilian inter-bank lines were cut to ribbons. New lending halted.

The unusual feature of the Brazilian case was that President Jose Figueiredo and Sr Antonio Delfino Netto, the Planning Minister, decided early on to try and ride out the storm. Despite a half-way house moratorium (affecting debt to private creditors falling due in 1983) and a series of emergency transfusions of funds from the IMF and foreign banks, that strategy still stands.

Its chief weakness is the fact that Brazilian banks abroad have obligations estimated at over \$11bn, 50 per cent higher than their (nationalised) Mexican counterparts. Two-thirds of that sum had been raised by just two banks, the state-owned Banco do Brasil and Banco do Estado de Sao Paulo.

For the private banks the struggle to stay afloat and avoid a failure, which would have triggered a domino action, was aggravated by the way the Banco do Brasil in New York negotiated the majority of new funds the Brazilian Government

was able to raise. The New York branch of the giant state-controlled bank acts as the foreign payments and collection agent for the central bank. Thus the blow fell there first when the vital inflow of loans to Brazil dried up.

**Safety net**  
From a position of being a daily investor of up to \$2.5bn on the money markets Banco do Brasil found itself operating for weeks on end with a deficit at the end of each day of over \$1bn. It survived thanks to a safety net created by Bankers Trust, its clearer, and other leading U.S. banks.

For the moment the Brazilian banking structure remains intact in its pre-crisis shape. But faced with the prospect of losses abroad for several years to come, many of those 108 branches are likely to be closed as soon as there is a breathing space.

In fact a limited reorganisation of the banking scene within Brazil is a likely consequence of the traumas of the past eight months.

Unless a formal full-scale moratorium is declared later in the year, nationalisation of part of the Brazilian private banks is most unlikely to take place. Those privately-owned banks most affected overseas, like Bradesco, Banco Real and Safra, are still immensely strong in domestic terms.

Profits may have fallen in 1982 by comparison with the previous year but average profitability (measured as profits divided by net worth) was still 43 per cent last year. Brazil is the largest single profit centre, worldwide, for Citibank.

On the other hand, the slow process of consolidation may well speed up in the coming year, the advantage of the major financial conglomerates such as Bradesco and Itaú. A medium-sized Rio bank, Residencial, which was closely tied to land and property investment, was recently taken over by a larger São Paulo bank, Auxiliária.

For their part the Western banks which have supported Brazil throughout the crisis hope its end will bring the opening of the doors closed in the mid-1960s. Two of the major exceptions, the number of foreign-owned banks allowed to operate in Brazil, and the size of their branch networks, has been frozen since that time. Morgan Guaranty and, to a lesser extent, Bankers Trust leading the phalanx of banks hoping to enter the commercial banking market.

Until now banks such as these and others whose potential growth has been limited by the restrictions have channelled their resources into investment banks and, more recently, leasing companies. Lloyd's 90 per cent shareholding in London Capital has been an outstanding example of success, while Midland and Manufacturers Hanover do well from their leasing activities.



## WORLD BANKING XIX

**AFRICA: swift changes are under way in South Africa's banking system. Official policy has generally encouraged the move towards a freer market in the sector**

## Buffeted by increasingly fierce competition

### South Africa

BERNARD SMON

THE REVOLUTION in South African banking has gathered such momentum in recent months that even bankers themselves hesitate to predict what may happen next.

The speed of change was neatly illustrated last month when the chairman of Standard Bank Investment Corporation, the country's second largest banking group (and a Standard Chartered subsidiary), felt obliged to revise his 1983 profit outlook made only two months previously. As recently as February last Stanbic said it was budgeting for a "fairly modest" increase in income this year. Now it expects earnings to fall.

Like South Africa's other banks, Stanbic is being buffeted by increasingly fierce competition, which is forcing banks to reduce the price of many services while pushing up advertising budgets and outlays on such costly equipment as automated teller machines.

The most far-reaching development was the abolition in February of the clearing banks' 56-year cartel, removing one of the most troublesome curbs on free competition.

In particular the demise of the cartel opened the way for banks to begin paying interest on current accounts. Until now they have had their bread buttered on both sides, paying nothing for current account deposits and at the same time charging customers a "service fee" on all debits and large cash deposits.

Within three weeks of the cartel's end, Nedbank said it would begin paying between 2 per cent and 5 per cent on current accounts with balances of more than R500. "It's a dramatic bid for increased market share," according to Mr Rob Abrahamson, the bank's managing director.

Nedbank receives only about a tenth of its deposits from current account balances. A far lower proportion than its two main competitors, Barclays and Standard, each of which relies on cheque accounts for 21-22 per cent of total deposits. Even so, Mr Abrahamson conceded that the move could cost Nedbank R20m a year, a seventh of its profits.

Barclays National and Stanbic have been forced to follow suit but they have tried to minimise the impact on their profits by opting for more complicated schemes combining interest payments with service fee rebates. The sudden decision to pay interest on current accounts was the main reason for Stanbic's revised profit forecast.

Barclays and Stanbic, though perhaps lacking Nedbank's aplomb, have also managed at times to steal a march on the competition.

Barclays was the first South African bank last year to offer home mortgages in direct competition with the building societies and at only slightly higher rates. (The societies have the advantage of being allowed to offer tax-free investment, thus giving them the ability to quote lower lending rates.) Barclays has lent over R300m to 8,000 home buyers in the past nine months.

Stanbic has led the field in installing automated tellers, and now has over 200 in service.

Not surprisingly, the large corporate customers are the main beneficiaries of the keener competition. They are able to

negotiate slender commissions on banking services (many of which were also regulated by the cartel in the past). Banks have begun shaving—and in some cases abolishing—the "commitment fees" charged on large overdraft lines.

Official policy has generally encouraged the move towards a freer market in the banking sector. According to Barclays managing director, Mr Colin Waterson, it has enabled banks "to react more rapidly than in the past to market forces and to alter interest rates to market-related levels."

### Prime rate

Banks have fallen over themselves to reduce lending rates in the past six months. Their prime overdraft rate, which stood at a record 20 per cent between March and November 1982, has already tumbled to 14 per cent and is expected to fall to 11-12 per cent by the end of the year as a surfeit of payments and weaker demand for credit pushes up domestic liquidity. Prime rate is no longer linked to the Reserve Bank's rediscount rate and blue chip customers have been at times able to negotiate loans at rates below prime.

Finance Minister Mr Owen Horwood said recently that a two-man inquiry will soon be set up to examine one of the remaining bureaucratic irritants—the maximum limits laid down for financing charges on amounts up to R100,000. He hinted that the Government is ready to consider adjusting the

ceilings—which presently range from 20 per cent to 24 per cent, depending on the amount of the loan—more frequently than in the past.

A number of other improvements are in the pipeline. The commission of inquiry into monetary policy chaired by Dr Gerhard de Kock, Governor of the Reserve Bank, has already indicated that it will propose a change in banks' reserve requirements from a system based on pre-determined "liquid assets" to a less onerous one based on cash reserves. The final de Kock report is expected around mid-1983.

The Reserve Bank is also considering ways of leasing the foreign exchange market. Despite the abolition of exchange controls over foreigners in February and other steps to liberalise the market since the first de Kock report four years ago, foreign exchange dealing is distorted by the overwhelming influence of the Reserve Bank.

Foreign currency proceeds from South Africa's billion exports are still channelled to the central bank, which acts as the nation's sole marketing agent. As a result the foreign exchange market relies on the Bank for its supply of U.S. dollars, giving Church Square tight control over the exchange rate of the rand.

The Reserve Bank has agreed in principle to route at least part of its billion dollars direct to the mining houses, which in turn deposit them with the private banks, thus enlarging the foreign exchange market. But the scheme has apparently become bogged down in technical problems and it may be some time before it is implemented.

Likewise, no date has yet been set for planned improvements to the forward exchange. These are expected to result in banks being allowed to arrange their rand-dollar forward rates set by the Reserve Bank, which is more concerned about the balance of payments than interest rate differentials.

### SOUTH AFRICA'S FIVE LARGEST BANKS

Rank in—quarterly averages for 1982

	Total deposits	Cheque deposits	Instalment lending
Barclays National	7,542	1,666	2,987
Stanbic	7,346	1,514	2,122
Nedbank	4,382	461	846
Bankorp	4,163	295	1,905
Volkskas	2,688	796	545

Source: Standard Bank Investment Corporation

International trade debt could exceed \$5bn

## Arrears mount in trade payments

### Nigeria

QUENTIN PEEL

THE queue at the main reception desk at the Central Bank of Nigeria in Lagos stretches out of the main entrance hall and far into the street, and would be a sight to horrify any visitor who attempts to bypass it. For once in Nigeria, the order of first come first served is strictly observed, and the most insistent would-be visitors are swiftly returned to the end of the line.

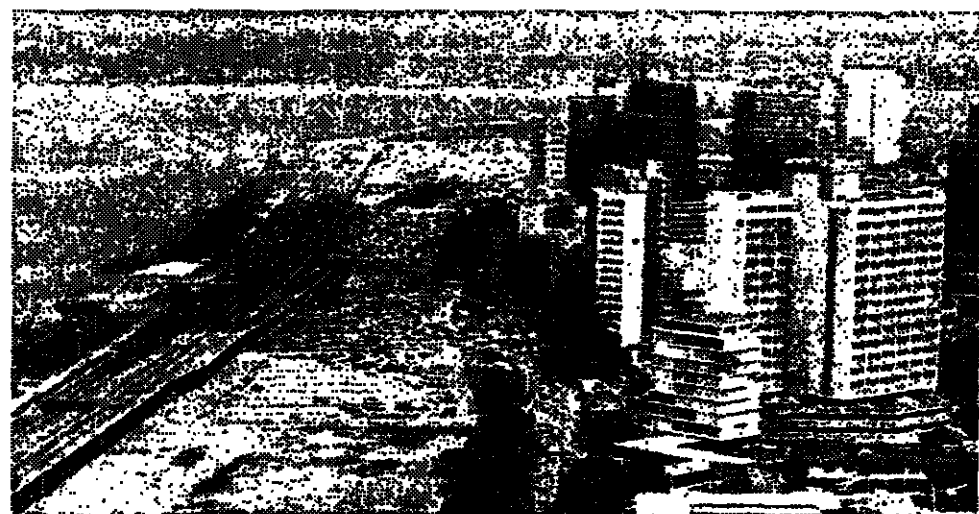
The scene is a graphic illustration of the topic of all-consuming concern to the Nigerian banking community: the length of the pipeline of arrears of trade payments owing to international banks and trading houses. Where once the queue at the Central Bank was of prospective importers pestering for permission to order more goods, today it consists mainly of those begging for their foreign exchange payments.

Nobody is quite sure of the extent of the arrears, which have built up over 15 months, as Nigeria's declining oil production has failed to keep pace with its bloated import bill. Alhaji Abdulkadir Ahmed, the governor of the Central Bank, maintains that it does not exceed \$5bn—in trade payments approved by the bank, but for which foreign currency is simply not available. Most commercial bankers say it must have reached at least \$5bn, if not more, including all forms of short-term debt.

### Traders' risk

The effect of the backlog, however, is quite apparent: all but a handful of smaller international banks have ceased confirming Nigerian letters of credit since last October. Traders have been forced to do business at their own risk, or not at all. And Nigeria's good name for reliable payment of its international debts has been severely dented.

The arrears amount in effect to enforced borrowing by Nigeria from its major banks and trading partners, at a time when its foreign reserves have slumped in two years from more than \$9bn to barely \$1bn, less than enough to cover one month's imports. Just one year ago, the governor decided he would only allow foreign exchange disbursements to be



Lagos, commercial capital of Nigeria—the country's good name for reliable payment of its international debts has been severely dented.

made equal to his monthly receipts so the level of reserves stayed the same, and the backlog of unpaid bills has soared. "The country is facing a cash-flow problem, rather than a fundamental debt problem," according to one leading banker, "but the end result is the same: the international banking community is very cautious about getting more deeply involved."

While the backlog in trade payments has been the most important development on the external front, the Nigerian Government has also been seeking to cover its shortfall in revenues by increased borrowing from the domestic banking sector. From mid-1981 to mid-1982, bank lending to the public sector rose from N1.7bn to N8.1bn. Treasury bills outstanding rose from N2.1bn to N5.5bn in the same period.

The fall in foreign reserves was therefore largely offset by the big rise in bank credit, resulting in a modest 7 per cent increase in money supply to mid-1982. Indeed, the net effect of government domestic borrowing, and foreign borrowing through delays on trade payments, has been to mitigate the slump in oil production, and lessen its immediate effect on economic activity.

Nonetheless, the signs of slower growth have been apparent in the banking sector. In 1978, there were 14 commercial banks in the country with 273 branches, which by the end of 1981 had increased to 20 banks with 869 branches; and six merchant banks with 15 offices. In 1982, only two new

commercial banks were licensed.

The banks have also had difficulty in the past year in meeting the limit laid down by the Central Bank for the growth of lending: the target of a 30 per cent increase was cut to 25 per cent in 1981, but the failure of the banks to keep up the same rate of growth in 1982 has resulted in a lower ceiling of 25 per cent—being set this year.

### Big Three

The commercial banking sector continues to be dominated by the Big Three—First Bank of Nigeria, Union Bank of Nigeria, and United Bank of Africa, whose principal foreign correspondents are Standard Chartered, Barclays and Banque Nationale de Paris, respectively. They control rather more than 50 per cent of business. In the early 1970s, their proportion of the sector was closer to 80 per cent, which shows the extent to which newcomers have nonetheless managed to gain a significant market share.

After being underlined in the 1970s, with advances of no more than 50 per cent of their deposits, and often as low as 40 per cent, the lending ratio has risen to around 65 per cent, reflecting the doubling in commercial bank credit to the private sector in the past two years alone.

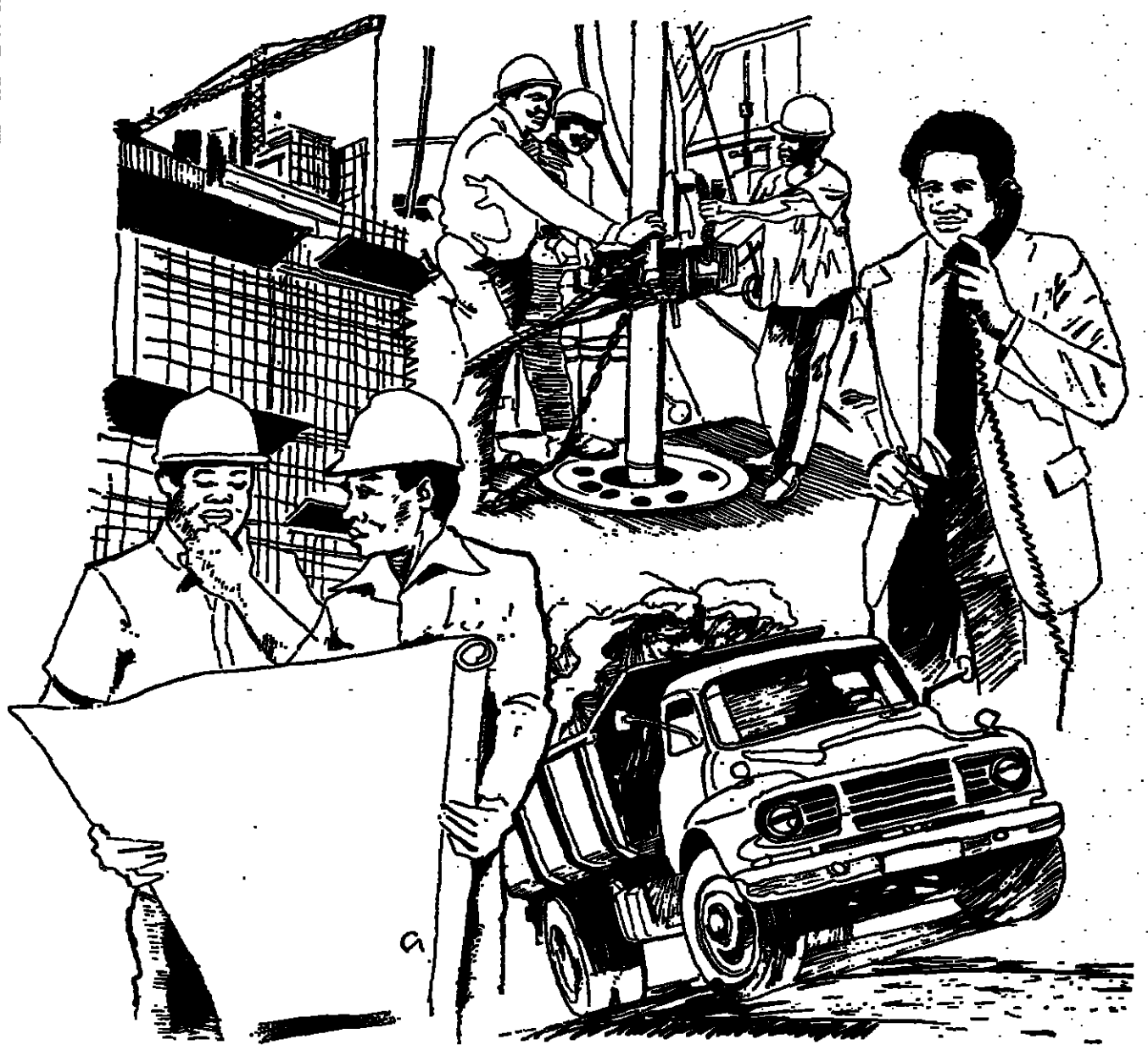
A key constraint on lending has been the overwhelming preponderance of short-term deposits in the banking system: in 1981, more than 80 per cent carried maturities of under 12 months. However, the banks

have been trying to lengthen their loan portfolios, with greater resort to term lending. In 1970, 90 per cent of commercial bank lending was for periods of less than one year, but by the end of 1980, the proportion had fallen to 77 per cent.

A criticism of the system has been its failure to lend both to small borrowers and to the agricultural sector, which the Nigerian Government has made its top economic priority. As a result, the Central Bank lays down prescribed sectoral credit allocation guidelines, requiring that 73 per cent of lending go to the "preferred sector," which includes agriculture, manufacturing, construction and exports. As one measure to curb imports, the government has steadily sought to reduce the proportion of bank lending available to importers, further cut in the latest budget to only 5 per cent. The refusal of correspondent banks to confirm letters of credit has nonetheless been the most effective restraint on the import bill.

The short-term payments crisis has also restricted the room for manoeuvre of the major commercial banks in Nigeria, by tying up increasing amounts of money in the Central Bank bureaucracy. Prospects for its resolution remain uncertain. Although a number of the largest banks favour continuing on a full-scale austerity programme with the International Monetary Fund.

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